INDIA'S POST-WAR RECONSTRUCTION AND ITS INTERNATIONAL ASPECTS

BY

P. S. LOKANATHAN

NEW DELHI
INDIAN COUNCIL OF WORLD AFFAIRS

BOMBAY CALCUTTA MADRAS LONDON
OXFORD UNIVERSITY PRESS

THE INDIAN COUNCIL OF WORLD AFFAIRS *is an unofficial and non-political body, founded in* 1943 *to encourage and facilitate the scientific study of Indian and International Affairs.*
The Council, as such, does not express any opinion on any aspect of Indian or International Affairs. Any opinions expressed in this paper are, therefore, the opinions of the author and not those of the Council.

First published January 1946

CONTENTS

INTRODUCTION

Post-war Reconstruction in India was written in December 1944 as data paper for the Conference at Hot Springs in January 1945 (U.S.A.) convened by the Institute of Pacific Relations and prepared at New York under severe limitations of time and material. It was submitted on behalf of the Indian group attending the Conference of which the writer was one, and some of the matter contained in the paper was the subject of a lively debate which proved most valuable. The delay in its publication gives an opportunity to bring some of the figures and other relevant facts more up-to-date. But upon further consideration it was felt that the balance of advantage lay in leaving the work as it was so that the reader might check up for himself as to how far the facts and conclusions set out here against the economic background of India towards the end of 1944 coincided with his own knowledge and experience.

Very important events have happened since. The collapse of Germany, the use of the atom bomb, the surrender of Japan, the establishment of the United Nations Organization, the revolt in South-East Asia, the dominance of Soviet power in Europe—these and a number of other significant developments are changing the face of the post-war world. The return of the Labour Party to power with a thumping majority, the political and economic implications of which are of significance to the whole of Europe, will affect the economic destiny of millions of people in far-flung Asia and Africa. No one writing about post-war reconstruction problems can afford to ignore the impact of such world factors upon the economy of one country.

Within India too conditions have changed for the better and the worse. The failure of the Simla Conference convened to establish a temporary National Government has so completely discredited the prestige of the personnel of the present Government of India that all talk of economic reconstruction under the present political set-up is futile. But the facade of a strong Government with economic policies and plans of execution may deceive the superficial observer. The Government has come forward with a statement of industrial policy which within the limitations of its constitutional power is sound and practical; but it lacks the prestige

and the unity of purpose to enforce it. Similarly the statement of principles that should govern action during the transition to peace economy put out by the Government in the matter of disposals, employment prices, controls, etc., is unexceptionable; but the knowledge that this Government's time is up deprives it of the strength and energy required to implement policy. It has become fully evident that political uncertainty is perhaps the greatest bar to effective planning for reconstruction and development. Already, and rightly, the public have turned to the National Planning Committee of which Pandit Nehru is Chairman for their guidance, as the course of future developments will be determined by the major political parties, rather than by what the present Government lays down.

However, in an account mainly devoted to narration of facts and their interpretation it would be appropriate to review recent developments affecting post-war reconstruction in India. Much attention has been bestowed on the problems of transition, and among others the necessity to prevent a slump and collapse of general prices has been fully recognized. Speaking on behalf of the Government, Sir Jeremy Raisman, Finance Member till April 1945, affirmed that the Government would be in a position to prevent a collapse and went so far as to suggest that

> 'it may even be better than having a collapse to go on maintaining an army of two million or providing them with uniforms. It may be better, to take the extreme instance, to go on producing munitions which you never intend to use'.

Similarly the Famine Commission in their final report have definitely laid down the policy in respect of maintaining agricultural prices during the transition period and urged upon the Government to take all measures to ensure that agricultural prices are kept within the limits of 180 and 240 per cent above the 1939 levels. A committee is also at work to make recommendations to see that the long-term prices of agricultural commodities are stabilized at a fairly high level. While policy is definite and clear, it is doubtful if implementation would be equally effective. The decline in public expenditure of the order of nearly 900 crores of rupees is bound to constitute a constant threat to the price structure;

but the plans to put through a well-devised programme of public works are yet to be drawn up.

Reconversion of industry has been proceeding at a snail's pace. Unlike as in other countries the problem of reconversion is not so big as that of rehabilitation and replacement of worn-out and overworked plants. But Government factories have not been switched over to peace time production with the speed characteristic of reconversion in U.S.A. and U.K. Replacement and improvement are handicapped by the unavailability of machinery and equipment from abroad. The Industrialists' Mission which returned recently from a visit to U.K. and U.S.A. reported that the prospects of getting machinery and capital equipment from abroad are not bright. The Planning Department, despite all its difficulties arising from lack of technical and administrative personnel and from political uncertainties, has been going on bravely with its work, but progress is distinctly poor. In April 1945 it came out with a statement of the Government's industrial policy which, with all its defects, marked a distinct advance by virtue of its affirmation of something definite. Its most significant feature was the affirmation that

> 'a vigorous and sustained effort is necessary in which the State, no less than private industry, must take a part, and that Government have decided to take positive steps to encourage and promote the rapid industrialization of the country to the fullest possible extent'.

Importance has been attached to the development of what is termed basic industries. Further, recognizing that 'the progress of planning has made it abundantly clear that certain industries must be taken over under central control in the interests of co-ordinate development', it lists a number of industries which would be brought under central control (not to be confused with nationalization) so as to ensure proper development. But since the future constitution of the country is shrouded with uncertainty, this policy is intended to be in operation only for so long as the present constitution lasts. The relation between the State and private enterprise has also been set out in the statement. Already ordnance factories, public utilities and railways together forming a considerable portion of the total industrial enterprise are very largely State-owned and State operated.

> 'Government have also decided that bulk generation of electric power should as far as possible be a State concern. It is now proposed that basic industries, e.g., air-craft, automobiles, tractors, chemicals and dyes, transport vehicles, iron and steel, electrical machinery, machine tools, electro-chemical and non-ferrous metal industries *may* be nationalized provided adequate capital is not forthcoming *and* it is regarded as essential in the national interests to promote such industries'.

This should be satisfying at least to the large volume of opinion that favours a mixed system of enterprise.

The Government contemplate some industries to be run partly by the State and partly by private enterprise. The Government have also taken power to license the starting of new factories and the expansion of existing factories. The power to license is essential to planned development but is capable of great abuse. So far licensing has been used only as a restrictionist device; hence the fear that developments and expansion might be checked by the abuse of the system of licensing persists in the minds of the public.

The Planning Department has set up 29 industrial panels to make recommendations for the development of various industries in regard to questions such as targets of production, location, finance, Government help., etc. But the panels have not done much work yet. Greater success has attended the Department's efforts in placing students for training abroad.

Another aspect of policy has been the assurance of protection for the period immediately after the war to industries which have been started or developed during the war. An interim Tariff Board has been constituted to investigate and report on the claims of such industries to assistance or protection. Welcome as these steps have been, they do not go to the root of the matter; for, thanks to the shipping, foreign exchange and import controls and the inflationary prices ruling in the country, all our industries have been enjoying artificial protection. There is a strong case for affording protection temporarily to all industries which would be subject to disruptive competition from powerful industrial countries and until the monetary level in India is brought into equilibrium with the world level and our

industries have had time to re-equip and reorganize themselves adequately.

Economic controls of various kinds developed during the war still continue in effective operation although there is a clear case for the entire removal of some and the relaxation of others. But for the war, the manner in which controls were operated in the country would have led to the severest censure and condemnation of the officials administering them. Delay, corruption, ineffectiveness and ignorance were rampant. The end of the war has made little difference to the outlook of the Government departments which still hope to thrive on controls. Everything is now stay put. There is ignorance as to the rôle of economic controls in the period after the war. If aggregate expenditure is to be maintained and if the Government, as is obvious, cannot be expected to continue the war expenditure of 900 crores of rupees, we must look to the quick expansion of private industry to fill the gap. Controls like capital issue control which only hamper private investment should be removed. Again, there is no understanding or co-operation between the Government and private industry as is the case in Britain and U.S.A.

Plans of reconstruction have been largely paper plans so far and have not emerged into blue prints of action. Private industry, no less than Government, has little to show in the sphere of concrete and detailed plans for expansion and growth. World factors are also such as to reduce the pace of action. The world is a sellers' market and a large back log of demand backed by enormous pent-up purchasing power waits to be met. Besides the huge rehabilitation needs of devastated Europe are also the reconstruction demands of several other countries than India. Thus India has to take her place in the buyers' queue. The terms on which foreign participation is possible are such that there is an unbridged gap between the offer of the Indian industrialists and the demand of their foreign counterparts. Above all, the present political conditions in the country are distinctly unfavourable to effective action in the sphere of planned economic development. The future may be full of hope, but the outlook to-day is distinctly unpromising.

November 1945

CHAPTER I

POSITION ON THE EVE OF THE WAR

No discussion of post-war economic reconstruction of India can be complete or fruitful without some understanding of the impact of the war on India's economy and of the background against which the problems will present themselves. On the eve of the war, the country had only just recovered from the worst depression in its history. The Great Depression of 1930 severely hit nearly all agricultural countries, but in its intensity and duration, its effects were intensified in India because no adjustment was sought to be made through the depreciation of the exchange rate.* Had the rupee been devaluated as economic opinion demanded, recovery would not have been so slow and halting. If one could project later experience into the past it is clear that conditions in India after Britain abandoned the gold standard in 1931 justified a further devaluation beyond that automatically brought about by the depreciation of sterling in terms of the dollar. The movements of prices in India and of other partly agricultural countries, such as Australia, Canada and Japan bring this out clearly.

Index numbers base 1929—100 (Wholesale Prices)

	1930	1931	1932	1933	1934	1935	1936	1937	1938
U.K. (Bd of trade)	87·5	76·8	74·9	75·0	77·1	77·9	82·7	95·2	88·8
U.S.A.	90·7	76·6	68·0	69·2	78·6	83·9	84·8	90·6	82·5
Australia	88·5	79·2	78·3	78·2	81·6	81·5	85·6	91·9	92·2
Japan	82·4	69·6	73·3	81·6	80·8	84·4	98·9	108·4	114·3
Canada	90·6	75·4	69·8	70·2	74·9	75·4	78·0	88·4	82·2
India	82·3	68·1	64·5	61·7	63·1	64·5	64·5	72·3	67·6

While other countries made a definite recovery after 1934 the plight of India continued to be pitiful. Intensive enquiries

*1 Crore =10,000,000.
1 Dollar= 33 rupees.
1 Lakh = 100,000.

ERRATUM

Page 1. For 1 Dollar=33 rupees *read* 1 Dollar=3·3 rupees.

carried out in several rural areas confirmed the impression that at the prevailing level of prices the agriculturist could not meet his costs (i.e., his wages and some return for enterprise). His debt mounted up; and the various schemes of debt conciliation and compulsory reduction in many provinces, partly by voluntary methods and partly by legislation, were the result of a sense of urgency forced upon the Governments by the extreme distress and suffering of the rural population. While some provinces like Madras went so far as to reduce the debt by incorporating somewhat arbitrary and novel features (such as a distinction between debt incurred prior to 1931 and that after 1931 and the wiping out of all debt on which a sum equal to twice the original principal of the debt had been paid), many provinces set up debt conciliation boards which were expected to bring about an equitable settlement by scaling down debts to the capacity of the debtor to repay. But such legislation, useful as far as it went, could not achieve a great deal. In the first place no legislation was integrated with a scheme of credit which could be employed immediately once the debt was suitably reduced. Secondly the root of the problem remained unattacked. As long as prices remained low, the solvency of the farmer was in constant peril. The only certain result of all these schemes of debt legislation was that they restricted credit impartially between productive and unproductive purposes, and hence to some extent farming suffered.

The standard of living of the people also underwent a serious decline. While the prices of agricultural commodities remained low, those of the goods which the farmer bought did not fall in the same proportion. The country as a whole also had very unfavourable terms of trade. While export prices moved from 100 in 1927-28 to 60·1 in 1937-39 and 55·9 in 1938-39 import prices fell only to 71·3 in 1937-38 and to 67·4 in 1938-39. From 1930 the country lived by dishoarding its accumulation of gold, partly, it is true, because of rising gold prices but largely owing to distress which beginning in a trickle even before 1930 gathered great momentum later. It was gold export that enabled the Government of India to maintain the exchange rate without difficulties in the servicing

of the sterling debt. The table below shows the heavy decline in balance of trade in merchandise compensated by the export of treasure.

Year	Exports	Imports	Balance in Merchandise	National Export or Import of Treasure
1928-29	330	253	77	-
1931-32	161	126	35	-56
1932-33	135	132	3	-65
1933-34	150	115	35	-57
1934-35	155	132	23	-53
1935-36	164	134	30	-36
1936-37	202	125	77	15

(In crores of rupees)

If one remembers that India in normal years is an importer of gold, the significance of the large export of gold cannot be missed. An inquiry made in the Punjab and certain other provinces showed that the peasants had to disgorge their gold hoards on account of the stern pressure of economic necessity. Thus rural India was left squeezed, with no margin for any future contingency. The weight of opinion of all responsible Indian economists was that the Government of India in not devaluating the rupee failed to use one useful and in many cases effective instrument of securing equilibrium by a more active monetary and currency policy.

If agricultural trade and prices bore all the marks of depression, the condition of manufacturing industry was none too favourable. After 1922, under the stimulating effect of discriminating protective policy, a number of industries were established while others greatly expanded their capacity. The growth in production of steel, sugar, matches, cement, glassware and a few other commodities was largely influenced by the protective tariff support on critical occasions. But the condition of unorganized industry—the handicrafts and small businesses—was unsatisfactory, though in the absence of presentable data no quantitative estimate can be made of the decline in employment, income and wages. Prior to the war the cotton textile industry was slowly recovering from the

depression to which it had been twice subjected within a decade. Even the newer industries found themselves in a vicious circle of high costs, low prices, and insufficient effective demand. The purchasing power of the agriculturists having been reduced, the markets for the goods coming out of the new industries had shrunk and it was widely recognized that the problem of more effective industrialization was in itself closely bound up with agricultural prosperity, which in turn could be maintained on a stable basis only through the effective demand of a large industrial population. Thus, on the eve of the war, the country was ready for changes and reforms in agriculture no less than in industry. Further the formulas which governed the decisions of the Tariff Board were found to be too narrow and severe. Protection would not be granted to an industry unless there was a demand for it from an established factory. If an important raw material was not available within the country, the case for protection was considered to be weak. Moreover in the case of basic industries protection by tariffs means high prices to other industrial consumers. This, by raising costs all round, has the effect of destroying competitive power or raising prices, thereby reducing demand. Hence a new approach was felt to be needed both in agriculture and industry.

Chapter II

THE IMPACT OF THE WAR

When the uncertainties of the international situation ended and the war actually broke out, the psychological factors affecting the economic situation became definitely favourable. The agriculturist looked forward to better prices, although not without some misgiving regarding his foreign markets. The industrialist expected larger production, a greater effective demand and higher prices. To the community as a whole the war brought promise of a rapid all-round economic development. The resources of the country in raw materials, minerals and labour, always considerable, and largely unused or underemployed, were once again reviewed, and it was found that in cotton, jute, oilseeds, hides and skins, lac and a number of other raw materials the country was extremely well placed. India was exceptionally well endowed with iron ores, manganese, mica and magnesite and although her coal reserves were not too large or rich they were sufficient for any rate of development possible within the next 20 or 30 years. Her water-power resources were ample but ill developed. Only the Punjab, Madras and Bombay (and Mysore among the Indian states) had gone far in developing water power but it was felt that there were vast potentialities which when developed would compensate for lack of coal in certain regions. India was, of course, deficient in sulphur, lead, aluminium, copper and a few other minerals. But the geological deposits of the country had not been properly surveyed. The optimists hoped that the war would quicken the search for other minerals. Between 1918 and 1939 communications had been improved, the railroad mileage had increased from 25,000 miles to 41,000 miles and road transport had also been expanded. Thus when the war broke out, expectations ran pretty high.

The immediate effects were on the whole favourable. Industrial and agricultural production and prices all showed improving trends. Prices went up rather high (from 100 to 140 in the space of three months) but after the initial

momentum began to decline. Industrial production increased. The magazine *Capital's* index number of industrial activity (base 1935—100) rose from 112·7 in 1938-39 to 113·9 in 1939-40, that being the highest since 1932-33.[1] Foreign trade recovered also except for a decline in the first two months of the war, and both exports and imports increased, exports relatively more than imports, with the result that the balance of trade improved considerably !

	India (without Burma) Exports	Imports	(In crores of rupees) Balance of Trade
1938-39	169	152	17
1939-40	214	165	49

But these movements were shortlived. After the initial spurt in agricultural prices, there began a decline which continued right till the end of 1941 and agriculture was in a depressed condition. The dislocation of trade combined with restrictions in exports and imports and scarcity of shipping reduced the volume of foreign trade and altered its direction. But the greater disappointment was in the sphere of industrial expansion. Many of the existing industries did increase their production, and secured larger margins of profit. But it came to be recognized that the opportunities which the war brought in its train could not be utilized partly because of what most Indian economic opinion regarded as the indifferent or ignorant policy pursued by Government[2] and partly because as in the previous war industry found itself checked by lack of essential plants and of spares and parts needed for expansion which had to come from abroad. But import was not easy. Further, in the absence of well-developed basic chemical and engineering industries, the essential foundation for the development of new industries or even the expansion of

1. Report of the Reserve Bank of India for 1939-40, p. 2.
2. See pp. 14 and 15 for elucidation of the point.

existing industries was lacking. The picture of industry, agriculture, trade and finance during the war is not a simple one easy to draw. It is varied and complex, and one has therefore to deal separately with each so that the main outlines at least may be clearly indicated.

A. Agriculture and Food Supply

The agricultural situation till the end of 1941 was very different from that which developed thereafter. The early rise in prices was welcomed and affording sure relief and compensation for the farmers who had suffered depression for nearly a decade. But in 1940, especially after the fall of France, agricultural prices sagged. The following indices of agricultural prices are revealing.[3]

	1939–40		1940	1940–41		1941	
(Aug. 1939 =100)	July to Sept.	Oct. to Dec.	Jan. to March	April to June	July to Sept.	Oct. to Dec.	Jan. to March
Food and Tobacco.	112·5	127·1	117·9	103·3	107·6	107·8	108·1
Other Agricultural Commodities.	123·0	201·2	151·5	112·9	107·1	102·5	112·4
Raw Materials.	109·6	128·8	125·4	112·2	116·9	124·0	125·9
Manufactured Articles.	121·5	144·2	133·0	117·1	114·4	119·8	131·7

Compared to manufactured articles, foodstuffs and other agricultural products remained depressed and prices definitely turned against the agriculturist from the beginning of 1940. The problem of agricultural surpluses especially in jute, cotton and oilseeds engaged the attention of the country and

3. Report of the Reserve Bank of India 1940-41, p. 3.

various remedial measures such as alternative markets and crops, reduction in cultivated acreage and provision of storage were considered. A scheme for the restriction of jute production was also put into effect. It is necessary to bear this situation very carefully in mind because it gives a clue to the failure of the government to take timely action when later an entirely different situation presented itself. India had looked upon food imports from Burma more as a threat to domestic prices than as a desirable means of maintaining the level of internal consumption. Indeed attempts had been made, although unsuccessfully, in imposing an import duty on Burmese rice with a view to protecting the interests of the farmer in India. Actually a small import duty was levied on broken rice imported from Siam and Indo-China. When the war broke out and prices recovered, public opinion welcomed the trend. When in 1940 prices once again began to sag, there was a feeling of deep disappointment and action was urged on the government to find export markets at reasonable prices for the surplus oilseeds and jute. Negotiations were entered into with Britain for the regular sale of groundnuts (peanuts) at prices higher than those ruling in India at the time and the differential margin was set apart for the building of warehouses in the country. Another interesting fact which explains the psychological approach to the question of food and food prices may be noticed. When the government convened price-control conferences in 1940 with a view to controlling the rising prices, the general opinion was that the price-rises which were taking place were only an overdue and welcome relief to the agriculturist and that no hasty or ill-considered measure of control should be taken or enforced.

This brief sketch of the situation as it was before the loss of Burma completely put an end to the import of rice is necessary, if only to explain why the country was ill-prepared for the very different situation of scarcity and abnormally high prices—which emerged after 1942. The adequacy and quality of food supply, taking into account both internal production and imports, was not examined except at the academic level. It was regarded merely as a problem of general poverty;

the idea that each individual should be assured of a sufficiency of food is of recent growth.

Till about March 1942 the food problem was considered only a price problem. The prices at which essential articles were sold were beyond the reach of the lowest income groups which did not have an equal share in the rising money incomes resulting from the war. But when the Japanese avalanche descended, and one after another—Malaya, Singapore and Rangoon fell—the entire Indian economy, which was based on confidence and on the ability to move grains from one region to another, was thrown out of gear. The figures of Indian food production are admittedly guesswork, and quite recently the Government of India in their agricultural department have taken the wind out of the sails of public criticism by frankly coining the new word 'guestimate' for their production statistics. With all their imperfections, they must be used for they are all that is available. India normally produces about 52 to 53 million tons of grain,[4]—this is an overall figure meaning very little because it avoids the problem of inter-regional differences in consumption and relative scarcities—and consumes almost 54 to 55 tons. The difference of 2 million tons is made up by imports. This apparently small percentage of imports to total consumption has exerted an influence out of all proportion to its size because the loss of imports came on the top of a number of disquieting features. In the first place the variability of out-turn is quite appreciable. A difference of ten per cent between one year and another is quite usual and makes all the difference between surfeit and scarcity. In normal years this difference is compensated by the free flow of grain from one part of the country to another. Transport has been available, and price differences attract grain to the places where it is most needed. Hence in the past famine nearly always meant regional scarcities. But in 1942 and 1943 the scarcity in one area could not be made up by transporting grain from another area. The removal or destruction by the authorities of small river craft

4. Including rice, wheat, and millets.

in Bengal (because of fear that the boats would be used by the Japanese) was particularly serious owing to the lack of other means of transport and prevented the movement of grain within the province. But railways proved entirely unequal to the task of moving grain. The transport breakdown must assume a large share of the responsibility for the famine that developed in 1943. Moreover, when the country was faced with the scarcity of food each province naturally looked after itself, and since there was no Central Food Authority to co-ordinate policy and to insure equal supplies (the Food Department was set up only in 1943), the provinces refused to help each other by equating their surpluses with deficits. The surplus provinces were mainly the Punjab, Sind and Central Provinces while the deficit provinces were Bengal, Madras, Bombay (and Cochin and Travancore among the states) which more than others had depended upon rice from Burma. Thirdly, while the loss of imports reduced supply, the demand was in excess of normal peace-time needs. The inflation that had set in after 1942 in an acute form had the effect not only of raising prices to great heights but paradoxically also of accentuating the hoarding tendencies of the farming and merchant communities. Some idea of the course of food and other agricultural prices can be had from the following indices :[5]

	Food and Tobacco	Other Agricultural Commodities	Raw Materials	All Primary Articles	Manufactured Articles	General Index
1939–40	118·5	157·4	119·3	124·3	131·9	126·0
1940–41	107·4	113·3	121·5	113·5	120·0	114·9
1941–42	122·0	129·9	146·7	132·4	154·4	136·8
1942–43	172·0	157·3	165·6	165·5	190·6	171·4
1943–44	294·4	217·0	185·1	233·4	237·3	237·3

5. Report on Currency and Finance for 1943–44, p. 75, published by the Reserve Bank of India.

(August 1939=100). But the official price indices give no indication of actual prices. Black markets had developed everywhere, particularly in the regions of scarcity, and food pirces had reached astronomical heights.

Bengal suffered most, and its distress was accentuated owing to administrative inefficiency both in the province and at the Centre. For three to four months the province suffered from a famine of great severity resulting in a loss of 1·5 million lives. It was worsened by the ravages caused by floods and cyclones in 1942. The famine could have been averted, if proper steps had been taken sufficiently early. But political difficulties combined with indifference and neglect on the part of the authorities resulted in a terrible tragedy. The lack of a coherent central policy, the delay in setting up a Central Food Department, the utter break-down of transport, the refusal to stop export of grains in the face of impending distress, the view that only surplus provinces should undertake the task of collecting the surplus while deficit provinces need not procure the surplus grain in the hands of the larger farmers, the failure to set up an effective procurement agency, the lack of incentive for the farmer to sell rather than consume a little more, the delay in price control and rationing, the delay in speeding up the machinery for increasing food supply, the lack of an effective organization to ensure increased output from the land, the failure to supply improved seeds and sufficient manure to secure a large output, a thoroughly inadequate administrative personnel, and a mistaken financial and economic policy which in the name of the war effort sacrificed millions of the population without either understanding or humanity[6]—these and other factors explain the tragedy. It was only after a committee was appointed in the middle of 1943 and reported in autumn of the same year that a food policy came to be developed. The Food Grains Policy Committee recommended firstly that export of food grains should be prohibited or in any event India on balance should not be a net exporter but a net importer for the entire duration

6. For further discussion and elucidation of this point see section on War Finance.

of the war; and secondly that a central grain reserve should be constituted of not less than 500,000 tons and 1 million tons should be imported annually until the end of the war. It further recommended that as early as possible a supply of 200,000 tons of fertilizer per annum should be planned by local production and importation. These recommendations were accepted but implementation has been very slow and dilatory. Indeed the Secretary of State has used the argument of shipping scarcity repeatedly so as to cover his default, and, betraying a lack of trust in his Indian Government, sent Sir Henry French, Permanent Secretary to the Food Department to make a fact-finding study. The fact that this study has only endorsed the view of the Government of India, far from being an extenuation for the delay to ship wheat, has only proved the failure of the British Government to take prompt action. The Food Grains Policy Committee made many other recommendations—statutory price control of essential grains, rationing, and above all the production and sale of essential civilian goods so as to induce the agriculturist to part with his surplus. The farmer who has a surplus of grain had no inducement to part with it. He could not get gold, or agricultural implements or any other goods on which he could spend his money. He could, of course, hoard his money which he did to some extent. But in the main he either hoarded the grain or in the case of the middle-sized farmer he ate a little more than usual. An extra ounce of grain consumed by about 50 million persons would make all the difference between surplus and deficit. The failure of the government to maintain a minimum output for civilian consumption had not a little to do with the acuteness of the food scarcity. Cloth was unavailable except at fabulous prices; steel, cement and a number of other requisites for building were all appropriated by the government. Until the end of 1943 the government did not show any appreciation of the real problem in regard to food. As the Food Grains Policy Committee pointed out in implicit criticism of government, 'It is incorrect to say that *next to the war* the food problem is the most serious problem which faces the country. This is wrong: the food problem is part of the war effort. Its settlement is as urgent

as any that confronts the country in military terms'. Since this report in October 1943, action has proceeded on several lines. Prices of wheat, sugar and other food articles have been fixed. In respect to rice while no all-India price has been fixed, each province has fixed a price with the approval of the Food Department. Conditions differ still so much that the policy of 'one price' is not immediately practicable. Rationing has been introduced in all the major cities, and is working with varying degrees of success in 138 cities.

Among the causes that have brought about an improvement in the food situation today, two or three deserve special mention: (1) the Grow More Food Campaign; (2) The Crop planning schemes of Bombay and other provinces; (3) More effective procurement of machinery. These did not influence the situation until 1944. Even late in 1944 the food situation was critical. As a result of propaganda and the co-operation of provincial governments and states three million acres of new land have been brought under cultivation but the actual output is disappointing largely because capital beyond the means of the farmer is required for reclamation and bringing fresh lands into cultivation. Diversion of jute lands into rice lands was brought about in Bengal both by compulsion and by fixing the price of jute at a level which would tempt the farmer to switch over to food grains. Similarly the price of sugarcane was fixed in the United Provinces and Bihar at a definitely low level so as to draw off the sugar lands into food production. In Bombay a more comprehensive measure involving both price-fixation for cotton and compulsory diversion of a portion of cotton lands into food production was adopted with the result that nearly 5 million acres of land were thus diverted. But the limitations to such diversion have also to be recognized. Cloth is a necessity, and already annual consumption has declined from 16 yards per head to about 13. In regard to jute the military requirements impose a rigorous limit. Sugarcane and oilseeds are not non-food crops and oilseeds are necessary for providing concentrates for the cattle.

The fact is that a revolution in the methods of production is necessary if India is to become self-sufficient in respect of her food supply. Out of the total area of 1000 million acres, 360 million acres are cultivated giving only 0·9 of an acre per head of population. In addition every 100 acres has to provide fodder for 56 cattle. Further, only one-fifth of the area cultivated is irrigated while the rest depends almost entirely on a precarious rainfall. This is the grim situation with which the country is faced, and there is no escape from the conclusion that while better seeds, manures, and irrigation will all be a help, the relative shortage of land in relation to population is a big bar to any rapid improvement on the usual lines. We shall deal in its appropriate place with the scheme of agricultural development that the government has in view in the post-war period and review the agricultural policy behind it.

B. Industry

As has been already pointed out high hopes were raised when the war broke out of a great era of industrial advance and prosperity. The last war had shown possibilities which could not be utilized on account of certain fundamental defects in the economic structure. Unfortunately for at least two years after 1939 progress in India was not commensurate either with the needs of the war or the potentialities of the country or with the intense anxiety of the business community to utilize all available resources. The government of India and the provincial governments took an extremely narrow view of what kind of industry deserved to be encouraged on the basis of war needs. According to them any industry which could not deliver its goods within a year or so was not to be regarded as essential for war purposes. This was to fly in the face of both the experience of the last war and of common sense and common prudence. In the result the motor car industry for which all plans were got ready by a private enterprise working in collaboration with an American firm was refused facilities for importation of machinery and guarantees of purchase for the army. The ship-building industry which cried for expansion was restricted on the same grounds; and the Secretary of the Department of Commerce

said in 1941 that the Government had no intention of encouraging ship-building industry as part of the war effort. Indeed for quite a considerable time all that the war effort meant was the collection of funds under varying degrees of official pressure to be remitted to Britain for the purchase and naming of a few fighter planes on the ground that India's best defence was in Britain's and that she herself need not do anything. Despite the unfortunate and unforgettable experience of the previous war the government persisted in pulling out rails and tracks and sending rails, wagons and locomotives to the middle East and other theatres of the war without making any preparation for replacing them or re-building them. Transport which at no time was adequate later became pitifully insufficient to meet the strain imposed on it. It is true that the railways have preened themselves on their achievement in carrying millions of military traffic and civil and military personnel. But the conditions of travel and the movement of traffic are woefully poor. Even the government's own plan laid out for the putting up of a plant for a locomotive industry was laid aside, and wagon-building did not keep pace with requirements. A number of industries which could have been established were prevented from doing so on account of the refusal to grant facilities for the import of machinery from abroad. It is true that shipping was scarce; and Britain herself could ill afford to spare for other countries the equipment needed by her. But if there had been greater imagination and realization of the magnitude of the tasks involved, India could have been made a major arsenal of the war. Until 1942 it should have been possible for America to send out more machinery and machine parts for the development of industry in India. The fact was that the implications of a total war were never fully understood by the Government of India, so that all war effort was directed to extremely narrow and rigid lines. Total mobilization of economic resources was never the objective and at the direction of the Secretary of State or influenced by a desire not to compete with Britain the government was interested in developing only such industries as would not compete with British industry.

The Indian public could not fail to draw a contrast between the great development achieved in Australia and Canada and that in India, and despite differences in many respects the responsibility for the poor showing in India could not but be laid upon government's policy. There was, however, a considerable expansion in certain fields of industry, and this was quickened after Japan's entry into the war. Purchases on account of the war and on behalf of the British and other empire governments imparted a stimulus to industry. In 1939-40 the aggregate value of such contract orders amounted to Rs. 29 crores, in 1940-41 to Rs. 79 crores, in 1941-42 to Rs. 172 crores and in 1942-43 to Rs. 257 crores. The general progress of industrialization may be observed from the following table : (It must be stated, however, that production figures in respect of many commodities are now withheld for military reasons.)

INDICES OF INDUSTRIAL PRODUCTION

	1938-39	1939-40	1940-41	1941-42	1942-43
Pig iron	100	116·6	125·6*	130·3*	130·
Steel imports	100	109·5	122·8*	138·7	135*
Finished steel	100	115·7	137·7*	150·7	145*
Cotton piece goods	100	94·0	100	105·2	125*
Sugar	100	182·1	149·5*	119·2	118*
Paper	100	119·6	148·1	152·9*	145*
Matches	100	104·3	109·8	78·4	80·5
Coal	100	101·1	104·8	98·1*	96·5*
General Index	100	117·1	127·6	124·5	120·0*

Production in several industries fell on account of labour difficulties and strikes in 1942-43 and in 1943-44 the shortage of coal became a serious limiting factor. The *Capital* Index of industrial activity showed that with 100 as base in 1938-39,

*Estimated (Figures of production have since 1942 been withheld from official publications on account of the war).

the general index was 102·6 in 1939-40, 105·6 in 1940-41, 110·4 in 1941-42, but in 1942-43 it was only 97·9. Production of paper which increased from 59,000 tons in 1939-40 to 100,000 tons in 1942-43 declined in 1943-44.

But this picture would be incomplete unless account is taken of the great developments in particular branches of industry and more especially in industries producing essentially war goods.[7] The annual output of steel increased from about 750,000 tons in 1939 to about 1,125,000 tons in 1943-44. New kinds of steel, like special alloy and acid steel were for the first time manufactured. Whole railway wagons including wheels, tyres and axles are being constructed and armoured plates and armour piercing steel are also being manufactured at Jamshedpur. The result of the developments in the steel industry during the war has been striking. Auxiliary industries have grown up and the essential foundation for the establishment of new industries is being laid. Indeed, the steel works in India have promised to build locomotives after the war and to supply the various parts required for the manufacture of motor cars.

In addition, advances in the supply of machine tools, structural steel, heavy mechanical appliances, electrical equipment, optical stores, paint and chemicals have been made. Before the war only 100 machine tools were made, in 1944, 4,500 machine tools were produced. As against 600 engineering workshops before the war there were by the middle of 1943 1,500 including 23 railway workshops. The production of aluminium is now fairly well established and has a capacity of about 5,000 tons of ingots and several manufacturing processes in connection with the rolling of non-ferrous metals have been developed. The cotton industry has increased its output from about 4,000 million yards to 5,000 million yards and entered into new lines of production. Tentage items, mosquito nets, parachute silk are some of the new lines of development. The woollen industry which was completely taken over

7. The data for the account given on pp. 11 and 12 are taken from several official sources, but reference may be made to *Indian Information*, Vol. 15, No. 142, August 1944.

by government has also increased its output. Both the handloom and machine-knitting industries have developed rapidly. Perhaps the most outstanding achievement was in the leather industry. From a bare 100,000 pairs produced before the war for defence services, the supply rose to 3·6 million pairs in 1941, 5·9 million in 1942 and 6·6 million in 1943. This increased supply came both from the bigger firms and the smaller producing units. The increased demand for harness, saddlery and other army equipment was also met by the leather industry. As against 3,000 workers employed in 1939, 20,000 are now employed and production is now roughly 20 times the peace-time output. Again grindery—the production of heel and toe tips, eyelets, etc.—formerly imported is now produced in India to the tune of 30 million pairs.

The chemical industry which had been established on a small scale before the war was able to expand considerably. Before this there were 23 factories producing only 26,000 tons of sulphuric acid. The demand having increased to 115,000 tons and imports of base materials not being available, production was stepped up. Six more plants were established but total production is still short of requirements by 93,000 tons. Attempts made to secure four contract plants under lend-lease from the U.S.A. have not succeeded. But notable improvements have been registered in the production of nitric acid, copper sulphate and bichromates, all requiring sulphuric acid as basic raw material. The deficiency in the production of caustic soda, bleaching powder, chlorine, soda ash, sodium bicarbonate, alums and a number of other chemicals still remains. The absence of a well-developed basic chemical industry and of a heavy engineering industry which was felt to be a serious gap and limiting factor in the last war continued to be so during the present war.

Owing to the stoppage of imports, the Indian production of drugs has received great fillip. About 60 per cent of drugs used are now manufactured in India. The development of our surgical dressings has also been rapid. Considerable success has been achieved in expanding industries connected with the manufacture of brushware, enamelware, crockery, cutlery, paper, cardboard products, glass, safety-razors and

a number of such small items. The canning of fruit has also developed from 1·5 million to 2·6 million cans. Timber, plywood, woodware and production connected with timber received some stimulus, and production increased from 242,000 tons in 1940-41 to 863,000 tons in 1942-43 and to 963,000 tons in 1943-44. In shipbuilding and aircraft manufacturing, no progress was possible. But repairing work, never before done in India, has been going on both in regard to ships and aeroplanes. The Hindustan Aircraft factory established for production has been used only for the maintenance and repair of aircraft.

There is no doubt that the greatest achievement has been reached in armaments production of different kinds. The Chatfield plan of 1938 designed to modernize and expand India's capacity for armaments production was put through during the course of the war. The Eastern Group Council was constituted in 1940 to coordinate the manufacture of various kinds of munitions in India, Australia and New Zealand so as to avoid needless duplication and its work was complete in 1943. Machine guns, anti-aircraft guns, anti-tank guns, and optical and fire combat instruments were produced. Much of the armament production had been located in positions vulnerable to air attack and hence certain key plants were later transferred to more safe regions.

How far can the plants producing munitions of war be converted for peace-time industrial uses? It is believed that a substantial percentage can be so converted. If this be true, it will remain the most substantial asset in the post-war period. A good deal of labour has been trained for the specially skilled work involved in these industries, and this training and experience will also prove of value. Nearly 50,000 men have been trained as technicians under the Technical Training scheme inaugurated in 1940. For higher grade skill, and supervisory functions, another training scheme usually known as the Bevin Training Scheme was established in 1941 with the object of giving higher technical training to young artisans in the United Kingdom at the expense of the British Government. But so far only 500 men have been thus trained.

On the whole, industrial achievement, considerable in absolute terms perhaps, is poor in relation to needs and opportunities. Making every allowance for the difficulties in the way of shipping facilities, import of plants and tools from countries themselves wholly engaged in war and lack of trained personnel, it cannot be seriously contended that more could not have been achieved. A dependent country cannot engage in a total war with great success because there is a serious divergence in the order of priorities in every sphere of economic and war activity between the peoples of the country, and those who govern. The two determinants do not coincide except by accident. How much food should be produced, how much goods for civilian needs, what industries should be set up, in what manner scarce transport should be allotted to different needs, how much of the country's resources could be diverted to war purposes without serious undermining of the health and morale of the population—all these will be differently answered by the people's representatives and by a government not responsible to the people.

Industrial Concentration : Such industrial expansion as has taken place during the war has been at enormous human cost in terms of congestion, bad housing and insanitary living conditions. Between 1931 and 1941 an enormous increase in population has occurred in towns of over 100,000 population. In 1944 there were twenty-three urban areas with a population of between 100,000 and 400,000 as against 17 in 1943. The number of towns with a population of 400,000 to 1 million increased from 4 in 1941 to 9 in 1943 and to 13 in 1944; and those over a million increased from 7 in 1939 to 9 in 1941 and to 17 in 1944. This increased urbanization is mostly due to industrial development; Ahmedabad, Cawnpore, and Lahore have shown phenomenal increases in population. Karachi, Nagpur, Bangalore and Jamshedpur have also grown considerably. The pattern of regional concentration found before the war has been reinforced by war-time industrial expansion. Most of the country's available production capacity lay in a few large and already overcrowded towns. Within a brief period of three years the population living in cities with more than a million inhabitants has increased by over 88 per cent;

the population in Calcutta is now 31·5 lakhs (1944) compared to 24·8 lakhs in 1941 and in Bombay 25·19 lakhs compared to 14·9 lakhs in 1941. The increase in the bigger cities has not been at the expense of the 100,000 to 40,0000 group. They have maintained their position despite the movement of many towns in the group to the next higher group. This has resulted in bad housing conditions in all larger towns. Seventy-four per cent of the population of Bombay and 66 per cent of those in Cawnpore live in one-room tenements. Fifteen persons per room are not uncommon in many parts of Bombay. The consequences of such congestion on health and living conditions can very well be imagined. Much of this congestion and aggregation of population has been due to the working of double and triple shifts. The rôle of new industries in increasing urban population has been in the main a subordinate one; the new industries that were established have in most cases accentuated rather than counter-balanced the trend towards concentration. Any scheme of post-war industrial development will have to take very drastic measures to arrest the tendency and to bring about a better regional distribution of industry.

C. Foreign Trade

On account of her economic dependence and her debtor condition, India's foreign trade had gained a disproportionate attention all along, which is not justified either by the proportion of her foreign trade to world trade or to her own internal trade. Indeed in relation to her size and population India's contribution to the total trade of the world is relatively small, nor did it change greatly during the decade before the outbreak of the war.

The Percentage Trade of the trade of India (including Burma) to World Trade is as follows for 1929-1938 :

	Imports	Exports
1929	2·6	3·6
1932	2·5	2·8
1935	2·4	3·0
1937	2·5	3·7
1938	2·6	3·4

After 1937-38 Burma was separated from India and the figures of foreign trade are swollen by exports and imports from Burma. Some change in the composition and direction of trade had already become noticeable, which the Great Depression combined with Empire Preference strengthened. Raw-material imports increased from 9 per cent in 1928-9 to 24 per cent in 1937-8 and stood at 22 per cent in 1938-9. Articles wholly or mainly manufactured constituted 71 per cent of the imports in 1928-29 whereas in 1938-39 they formed only 61 per cent. Similarly in respect of exports while food, drink and tobacco gained a little, the percentage of raw-material export diminished from 52 per cent in 1928-29 to 45 per cent in 1938-39 while manufactured exports increased from 27 per cent in 1928-29 to 31 per cent in 1937-38 and to 29 per cent in 1938-39. These changes reflect the partial industrialization that has been going on since 1921. Sugar and matches which accounted for a large share of the imports were largely replaced by domestic production, and cotton goods production increased rapidly. There has also been a change in the direction of trade. In 1923-24 exports to the British Empire countries were only 41 per cent of the total, while imports from the British Empire were 65 per cent of the total. In 1938-39 exports to the British Empire increased to 54 per cent (to Britain from 24 to 34 per cent) while imports from the British Empire declined from 65 to 58 per cent (from Britain alone from 58 to 31 per cent). But it is dangerous to draw hasty conclusions from these changes. The nature of the changes in the imports and exports of raw materials and manufactured goods must be more carefully examined before any reliable conclusions can be drawn. Moreover, changes in the direction of trade were influenced by Ottawa preferences and the Depression and the effects of these may not endure.

The effects of the war on India's foreign trade have not on the whole been injurious. But the lack of a sound export and import policy has resulted in serious dislocation of her economy and failure to develop her own industry. The following table gives the figures of export and import trade for the year 1938-39 to 1943-44. It must be noted, however, that these

figures give a wholly incomplete view of trade because trade on government account and lend-lease export and import are excluded from these figures. This detracts greatly from the value of the figures, but such as they are, they will be useful.[8]

	1938-39			1939-40			1940-41		
	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.
(In crores of rupees)									
Total trade.	152·3	162·8	10·5	165·3	203·9	38·4	157·0	187·0	30·0
	1941-42			1942-43			1943-44		
	Imp.	Exp.	Bal	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.
Total trade.	173·3	237·6	64·4	110·5	187·6	77·1	118·9	199·2	80·3

Countries (in percentage).

	1938-39		1939-40		1940-41		1941-42		1942-43		1943-44	
	Imp.	Exp.	Imp.	Exp.	Imp	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
United Kingdom.	30·5	34·1	25·1	35·1	22·8	34·7	21·1	32·4	26·8	30·5	25·1	30·2
Australia.			1·4	2·7	1·6	3·9	2·9	5·2				
Total British Empire.	58·1	52·4	56·3	55·9	57·3	62·4	61·0	62·7	55·5	67·1	48·0	64·5
U.S.A.	6·4	8·5	7·1	11·9	17·2	13·8	19·9	19·5	17·3	14·8	15·5	20·2

The value of India's foreign trade declined the year following the outbreak of the war mainly on account of the fall of France and other countries, but recovered quickly in 1941-42. The export trade increased from Rs. 187 crores in 1940-41 to Rs. 238 crores in 1943-44 and the import trade from Rs. 157

8. Report on currency and finance for 1943-44, p. 23,

crores to Rs. 173 crores. From the point of view of India's economy the effects were serious. The large and continuous export of food grains and other essential civilian goods was in part responsible for the intense scarcity which followed in 1943. Instead of scaling down exports and stimulating imports, the opposite policy was followed. The subsequent years brought about a fall both in exports and imports but while the quantum of fall was greater in exports the fall in value was greater in imports. In 1943-44 there was an increase in the value of lesser exports and imports, but in the case of exports the quantum was less. In view of the controversy regarding the prices at which goods were bought by the British Government in India the following indices showing the price levels of imports and exports will be of interest.

(1938-39=100)

	1940-41	1941-42	1942-43	1943-44
Import Price-level	126·7	153·4	192·9	195·5
Increase Per Cent (over previous year)	19·1	21·1	25·7	1·3
Export Price-level	130·3	155·9	184·6	227·4
Increase Per Cent	8·8	19·6	18·4	23·2

What is remarkable about foreign trade during the war is that despite the loss of markets the value has been kept up. The re-opening of the Mediterranean route has brought about almost a greater diversification of markets. While the empire markets have been most important, the 1943-44 figures show that the share of non-empire countries particularly of the U.S.A. and the Middle Eastern Countries has increased. On the export side the U.S.A. share increased by Rs. 12·49 crores in 1943-44 while on the import side the difference is explained by the import of raw cotton from Egypt and of mineral oil

from Iran and Iraq. It is unsafe to draw any inference from these war-time developments, though trade with the U.S.A., Africa, Australia and Middle Eastern Countries may increase after the war. Nor is it safe to generalize about the growing industrialization of the country from the structural changes in import and export trade. Thus, although the value of raw materials imported constituted 54 per cent of the total imports in 1943-44 as against 47 per cent in 1942-43 and 29 per cent in 1941-42 it is well to remember that a major item in this group is mineral oil. Similarly most of the increased export of manufactures consist of cotton and jute goods—products of old and well-established industries, and there is not much point in assuming that war-time industrialization in these goods has established the basis for permanent expansion.

The balance of private merchandise trade in the five years since 1938-39 has been steadily rising.

	(Rs. crores)
1939-40	48·9
1940-41	42·2
1941-42	79·9
1942-43	84·2
1943-44	91·3
Total for the five years	346·5

In regard to future trade policy, the war has so altered the position of India in one fundamental respect that she need not any longer submit to a violent alteration of the terms of trade to her disadvantage. India has in the course of a very few years changed from a debtor to a creditor status. The result is two-fold: firstly, her effective demand for the products of the overseas world has greatly increased. Secondly, her dependence on an excess of exports over imports in order to meet her annual foreign obligations has been overcome.

D. Inflation and Prices

Among the various war-time developments in the Indian economy the enormous expansion of currency and the high prices and cost of living overshadow all the rest by their

4

spectacular character and their direct impact on the daily life of the citizen. As has been already pointed out the index numbers of prices did not show any sign of alarming increase until the middle of 1941. But from that time, prices showed an upward trend, which gained in strength and momentum as months went by. This price rise was associated with increased note-issue, and the question how far inflation was the direct outcome of currency expansion became, since 1942 and particularly in 1943, a subject of burning debate in the country. The following table sets out in juxtaposition the increase in Note circulation and Demand Deposits and the calculated Index of wholesale prices :

	Note circulation (In Rs. crores)	Demand Deposits	August 1939=100 Calculated Index of Wholesale Prices
1939 August	179	136	100
December	236	138	137
1940 January	238	139	130
October	229	162	121
1941 January	245	169	121
August	277	195	151
1942 January	356	217	155
August	474	295	192
1943 January	593	345	250
October	782	466	334
1944 April	894	565	298

Between October 1943 and April 1944 the note circulation increased to Rs. 894 crores but during the same period the price index fell from 334 to 298. The index of food prices (August 1939=100) which ran from 107·4 in 1940-41 to 303·4 in October 1943 also fell to 283·8 in March 1944. The following are the relevant indices of cost of living :

(August 1939=100)

Bombay cost of living (quartered figures)

1939-40	1941-42				1942-43				1943-44			
II	I	II	III	IV	I	II	III	IV	I	II	III	IV
106	122	129	129	137	152	170	188	208	235	245	247	226

A careful study of these indices in different periods is very revealing and will in itself explain the widely different viewpoints taken by different sections of economic opinion in the country. Before we examine some of the main elements in the controversy which arose, it is necessary to say a word about the manner in which in India the monetary circulation increases or decreases. In the main the most significant source of increase or decrease of money supply in the past has been the acquisition of foreign exchange or rather sterling, and sterling reserves have been the basis of expansion and contraction. Internal credit expansion and contraction have followed in the wake of the external force, but have never operated independently. After 1931 when the rupee was legally linked to sterling and even the formal link to gold through sterling had been cut off, any expansion or contraction of rupee covering has automatically (though with some time lag) taken place with an increase or decrease of sterling reserves. The link with sterling is important. The methods of financing the war in India, the financial burden of which was partially undertaken by Britain, were rendered easy by the fact that no special arrangement or scheme had to be devised to find the money. Therefore, all that was necessary was to work through the currency mechanism. For all expenditures in India incurred by the British Government, sterling bills—just created for the purpose and capable of being increased at will—were placed to the credit of the Reserve Bank of India which was thus enabled to pay out rupees at the controlled rate of exchange. Hence the process of financing the war so far as British responsibility was concerned was quite smooth. In fact it differed in no essential particular from the manner in which Germany was able to acquire resources in occupied territories. The fact that marks were worthless assets and that sterling would be a valuable asset after the war was irrelevant to the immediate issue, namely, whether this was or was not an inflationary method of raising funds. The significance of this method adopted by Britain of raising resources from India was that for a long time it prevented the Government of India from realizing its essentially inflationary nature. The latter thought that as long as the letter of the

Reserve Bank of India Act was followed, and currency was expanded only against sterling assets, they could not be charged with adopting inflationary methods of financing the war. Their argument was naive in the extreme. So far as India's own share of war expenditure was concerned, they argued, it was fully met by taxation and borrowing ; for that part borne by Britain, sterling assets were placed at India's disposal which could be utilized after the war ; what they failed to note was that the loans which India was in effect granting to Britain should also come out of real savings if inflation was to be prevented. Actually all that happened was that the Government of India was able to draw freely from the Reserve Bank any amount of rupee currency against sterling assets without at the same time being compelled to withdraw from the public, by way of taxation or borrowing, sums sufficient to equalize the credits they were granting to Britain. Thus the Indian currency system with its sterling link which in normal times, when sterling was convertible into gold or goods, worked without injury, was proved to be unsatisfactory. But while the above was at least an implicit recognition of the existence of an inflationary situation, the Finance Member was even less aware of the problem than the general public. As late as March 1943 he said in his budget speech that there was no credit inflation 'but only a temporary situation in which an increase in the volume of purchasing power infringes for a time on a stationary or diminishing volume of consumable goods' and that with victory for the United Nations there was 'not the remotest risk of inflation of the nature and on the scale which occurred in some of the countries which suffered utter defeat in the last war'. Professional economists came out with a strong rejoinder and in April 1943 twenty of them issued a manifesto which stated that the inflationary spiral was already at work and that the inflation was deficit induced fiat money inflation caused by the peculiar system of war finance under which British and allied purchases in India were paid for in sterling assets against which currency was issued in India. Mr. G. D. Birla, one of India's leading industrialists, wrote an article denying inflation and attributing the rise in prices to the scarcity of commodities, and strongly

pressed for a rapid programme of expansion of goods essential for the consumption of the masses of the population. To quote his own words: 'No amount of currency deflation or curtailment of prices or freezing of income will solve the problem of scarcity. The only solution is to produce more food and more cloth and more of other consumption goods. One may ask: "Can production be increased?" I say with all emphasis I can command that production could be increased and enormously if government were capable of inspiring, planning and mobilizing the country's mind and capacity'.

It is unnecessary to enter upon an elaborate discussion of the issues involved in this controversy. It would suffice here to review briefly the substance and weight of the arguments presented in the course of the controversy. The Government of India, the Reserve Bank of India and those who followed the same line of reasoning went wrong in their assumption that so long as currency expansion was backed by sterling within the letter of the Act, there can be no inflation. In normal times when sterling could be converted into goods and services which can be imported freely, that argument would have been valid. But when sterling was virtually blocked, the fact that it would become available for purchase of goods at the end of the war could not avert present inflation and present increase of prices. Indeed, even if there had been no financial liability thrown upon Britain and all India's foreign exchange was built up through export of goods to foreign countries, inflation would have been unavoidable if either there was no rapid increase in home production or if import became difficult. On the other hand the economists unduly simplified the issue and exaggerated the monetary aspect of inflation: for in establishing a direct causal relation between currency expansion and prices and in looking for the purely monetary methods of price control, they became pure 'quantity theorists'. If during the war and between the inter-war years one thing was more apparent than anything else it was that more currency did not necessarily mean higher prices. All that it meant was greater need for, and perhaps a little more difficulty in, the management of such currency. Not a single country but has not increased enormously its currency

and banking deposits. But prices have not risen in all of them. Again in saying that the inflation was induced by deficit financing and the issue of fiat money the economists made no distinction between the ordinary war-time expenditure financed by the government and the extraordinary expenditure met in India on behalf of the allied nations. Secondly, to treat sterling as a worthless asset was also incorrect, as in the future it could be converted into goods or gold. Above all they looked merely to taxation and borrowing to remedy a situation which really needed controls of all kinds, including direct control of prices, rationing, etc. The business community was in substance correct in their argument that the true remedy consisted in an increase in production sufficient to check inflation, although in their denial of inflation and their insufficient stress on the need for price control and rationing they were, of course, mistaken. One of the most serious contributory factors to inflation in India was the failure on the part of the Government of India to recognize that even in war-time the production of civilian goods could be increased, and indeed should be increased, so as not to reduce the already low margin of subsistence any further. Production, as has been pointed out already, did not increase very appreciably in the civilian sector of the economy. Much of it was also exported. Food, cloth and a number of other articles were freely exported. There was no attempt at direct regulation of prices, nor any plan for rationing. The result was that by the spring of 1943 a very serious inflationary situation had developed and was nearly getting out of hand.

How far a different method of financing the British and other allied nations' war expenditure was practicable it is difficult to say. Some economists pressed for the flotation of British loans in India to be issued by the British Government. The answer given by the Government of India was that it would not have produced any different result. If loans issued by the Government of India were not taken up, there was less chance of success for British loans in India. In the eyes of some, the results of such an action would be even more bearish as it would be an admission that the British Government was losing its financial strength. It was also widely believed that

the Reserve Bank itself suggested to the Government that the Bank should not be made the channel for transmitting the inflationary force to India through its currency operations intended for normal purposes. Be that as it may, the difficulties of the Government were two-fold. On account of political factors and the lack of co-operation between the public and government the loan programme was not a success till the middle of 1943 when the tide of the war began definitely to turn in favour of the Allies. Secondly, the Government of India thought too long only in terms of monetary instruments of control and too little in terms of production. In the meanwhile the prices of foodgrains and cloth had gone up by 400 to 500 per cent. For instance, the price of drill which was 7 annas per lb. before the war had reached 42 annas per lb. in June 1943. Prices of foodgrains rose from an index of 93 in September 1939 to 530 in September 1943. Black markets had developed extensively. Public opinion was insistent upon some action and check to profiteering that was going on uncontrolled. A number of price-control conferences were held but with no satisfactory result. In December 1942 a separate Food Department was set up and in August 1943 one of the members of the Viceroy's Council was appointed Food Member. It was only after the report of the Foodgrains Policy Committee in October 1943 that effective measures to control supply, to fix prices, and to ration were adopted. The first firm action in securing control of non-food items was taken in June 1943 when the cotton cloth and yarn control order was issued by which a control Board was set up and a Textile Commissioner was appointed to regulate prices and control distribution. The Control Board was constituted almost entirely of representatives of the industry, and within a few months the upward spiral of cloth prices was stopped, and ceiling prices which were below 40 to 50 per rent of the peak prices of June 1943 were fixed. Even so the prices still remain at a level about three times the pre-war prices, the cost of production having gone up by 250 per cent in the meanwhile. The following statement will be useful in the context :

(Prices in annas per lb.)[9]

Variety	1939	1943	Controlled Prices in May 1944
Grey Drill	7	42	24
Bleached Mull	16	100	53
Leopard cloth	8·3	43·4	27
Yarn 20 lb.	6·1	39	19

In October 1943 the next important step was taken by which, under the Hoarding and Profiteering Prevention Ordinance, power was taken to fix the ceiling prices of all articles imported or locally produced and a Price controller with Deputy controllers was appointed to assist him. The psychological effects of the order were favourable, and the upward trend of prices was arrested. But black markets continued to exist. Sugar was controlled in 1942 by the appointment of a sugar controller who was vested with full powers to regulate output, fix prices and channel the means of distribution. Although there was a scarcity of sugar in many regions on account of transport bottle-necks (with its concomitant black marketry), on the whole sugar control attained a fair degree of success.

Price control has been a failure. 'It was late, weak, vacillating, half-hearted, and failed in effectiveness partly because of the lack of popular support but mainly because of the absence of a coherent policy and a complete lack of the necessary personnel to enforce it'. There was little understanding of the principles of price control. At first it was thought that through taxation and borrowing, surplus purchasing power could be drawn up, and everything would go well. But the government had not even the machinery to collect taxes efficiently. Although an Excess Profits Tax had been

9. *Indian Information* Vol. 15, No. [illegible]

in operation since 1941, the amount of uncollected revenue in E.P.T. had reached over Rs. 100 crores in 1942-43 for lack of tax personnel who could settle the amount of tax. When, later, price control was introduced it took long to realize that control over supplies and distribution was essential and a vital corollary of price control. 'The most favourable time for regulating prices was the period before 1942 when prices had not gone out of hand.' But regulation was attempted after every element in the price situation had gone out of control. Wages had increased, and the government itself was the worst sinner in that respect. Costs of all materials had gone up. It was impossible to reduce prices at any given point without conflicting with the high prices prevailing in the other sectors and it was obviously impossible to bring them all down because different vested interests had been created. The question of what is a fair price also did not admit of an easy answer when costs had already gone up. Again, with absolutely inadequate personnel, the method of universal or blanket control as it was called had no chance of success, however theoretically sound the idea was. It remained a pious wish, ceiling prices remained paper prices, and not true market prices at which goods were actually bought and sold. Even considering the administrative difficulties of such universal control, if the prices of critical or key articles had been controlled at an earlier level and if wages had been frozen at a reasonable level, price control would have attained a greater measure of success. Actually the government adopted the opposite policy. They deliberately increased the wages of all the labour employed by them, mainly on political grounds, but adopted a general scheme of price control which had not the remotest chance of success. If prices have not gone up since the middle of 1944 in India, it is due to the favourable war situation; not to the effectiveness of price control.

E. Inflation and the Community

Whatever the causes or methods which brought about inflation, the effects on the entire economy of the country have been disastrous. The cost structure has been grossly distort-

ed. Industrial wages and prices have reached levels at which it would be difficult for India to maintain competitive efficiency after the war when controls are relaxed. The productive system is faced with serious danger. How to readjust the post-war economy on the one hand so as to avoid the painful and dangerous process of deflation and on the other hand to reduce costs or bring about an equilibrium between world cost-price structure and India's cost-price structure will be the most serious problem after the war. Meanwhile inflation has injured large sections of the community. There are those who contend that because India is largely agricultural, and agricultural prices have gone up, the country as a whole has benefited. This is a very superficial view. The agriculturist classes are not one simple homogeneous group. Within it are different sections who are differently affected by price changes. The large landlords and those others who have had a surplus for sale have benefited. But the subsistence farmers and the entire group of agricultural labourers have suffered greatly. Some have had an opportunity to increase their incomes by volunteering for the army. But those that remained were badly off. The famine in Bengal which took such a heavy toll of human lives is an indication of the distress of the agricultural labouring class all over India. Such partial enquiries as have been made in certain parts of India, e.g., the Punjab, show that the larger and middle-sized land-holders have been able to wipe out their mortgage debt and are in possession of cash resources. But the bulk of the agricultural community cannot be said to have prospered on account of inflationary prices.

Sufferings have been inequitably distributed over the rest of the community. The war contractors, profiteers, speculators, the business community, the retailers and wholesalers have profited at the expense of the rest of the community and of the fixed income receivers. Industrial wages including bonuses and cost of living allowances have kept pace with the increased cost of living.

A study of the ownership of the cash and currency issued during the period and of the large increase of deposits in banks has shown that while deposits were mainly made by

the business community (interpreted in a wide sense), the holding of currency was very widely distributed. But even in regard to currency, the percentage of notes held in larger denominations has increased, showing that hoarding of currency has taken place among the richer sections of the community. The following table shows the increase in notes and deposits in each of the years after the commencement of the war:

	Notes issued* (In crores of rupees)	Deposits (Current and time)
August 1939	216·8	249·5
March 1940	252·2	259 3
March 1941	269·3	284·7
March 1942	421·1	322·2
March 1943	655·1	493·6
March 1944	891·8	688·7

War Finance

The amount of defence expenditure which India has been called upon to incur is made up of two parts: one for which Indian resources must bear the burden, and the other part which falls upon the British Government but the resources for which are to be found by India herself. The allocation of defence expenditure between India and United Kingdom is governed by the terms and principles of the Financial Settlement arrived at in 1939, in accordance with which India is liable for the cost of forces serving within her geographical frontiers, while Britain must bear the cost of all forces serving abroad. The strength of the forces needed for defence within India is subject to maximum limits both in respect of land and air forces, and this is determined within those limits by the Commander-in-Chief of India.

*These figures relate to notes issued whereas those on p. 26 are notes *in circulation*.

The defence expenditure borne by India in the years since 1939 and the total revenue are given below :[10]

(In crores of Rupees)

	Total Revenue A	Defence Expenditure	Total Expenditure B	Proportion of A to B
1939-40	94·6	49·5	94·6	100
1940-41	107·7	73·6	114·2	94·3
1941-42	134·6	103·9	147·3	91·4
1942-43	176·9	267·1	341·6	51·8
1943-44	254·5	300·9	385·2	66·1
1944-45	308·5	301·2	387·2	79·6
(Budget)	1076·8	1096·2	1470·1	

To the total defence expenditure borne and incurred by India should be added the expenditure incurred by India on behalf of the British Government for which the latter is financially liable. No separate figures are given in the financial statements but some measure of it can be obtained from the total sterling payments made on this account by the British Government which amount to Rs. 935 crores up to March 1944. Thus the defence expenditure of India during the war up to March 1945 would be Rs. 1,096 crores plus Rs. 935 crores plus an estimated amount of Rs. 400 crores incurred on behalf of the British Government for the current year totalling Rs. 2,431 or roughly about Rs. 2,500 crores. The annual average represents nearly three times India's annual revenue and considering the fact that her resources have not been developed has imposed a great strain upon an economy totally unequal to the taxes imposed on it.

How was this vast defence expenditure of over 2,500 crores of rupees met ? In the first place until March 1944 the Finance Member did not regard it as his duty to find the

*Total revenue includes tax revenue and revenue from commercial services and contributions from railways.

10. Report on currency and finance for 1942-44.

extra resources required to meet that part of the defence expenditure incurred as British account. In the main he was concerned only with finding resources by taxation and loans for that part of the war expenditure for which India was liable. Only in his budget speech in March 1944 did he recognize frankly this added responsibility: 'It is true', he said, 'that the expenditure debitable to the Indian budget has been fully met by taxation and borrowing throughout the period of the war. In that sense there has been no uncovered budgetary deficits, though there have been, of course, revenue deficits which have added to the permanent debt. But what matters from the point of view of preventing inflation is that the reabsorption of purchasing power should be adequate to the total government outlay and our troubles have arisen from the fact that we have not at all times been able to raise sufficient rupees from the market to finance the recoverable (i.e., from the United Kingdom Government) war expenditure ....The rupees issued to fill the gap have, of course, been backed by sterling assets but since these are, during the continuance of the war, largely incapable of being converted into goods the increase of purchasing power in the country has had inflationary effects'. This is very far from the earlier position he had taken when he almost denied the inflationary effects of the vast defence expenditure. But even then he was slow to realize the full implications of the wrong financial policy he had pursued. In an undeveloped country like India, war finance beyond a certain point would reach breaking point. To pour currency continuously into a stream and then to dry it up by taxation and borrowing is just not possible except where two conditions (both being absent in India) are present. Firstly, there should be full co-operation between the government and the people. Secondly, the technical methods and instruments of drawing off the purchasing power require efficient tax machinery and large personnel. Whatever be the amount taxed or borrowed there would still remain large purchasing power which should be prevented from exercising its effect on prices by means of price-control, rationing and other measures. But to attain a reasonable degree of success, there needs an adequate supply of essential civilian

goods sufficient to maintain the lowest standard of living considered proper even in war time. It is not an exaggeration to say that never during the whole period of the war, until recently, have the Government of India ever considered in terms of what the people need in physical quantities and what steps should be taken to ensure that minimum by making available the resources in material and machinery needed for the purpose. War economy does not merely mean that all resources should be diverted for the war. The minimum for consumption should first be provided. Where a country is already at the lowest level of subsistence, the need for a big production drive was urgent. This was not recognized. Had the government undertaken a big production drive and implemented the recommendations of the Grady Mission from the United States the condition of India would have been different. At the time when the Roger and Grady Missions made their reports, facilities for imports were not unavailable. The granting of such facilities was implicit in the very constitution of those commissions.

The main increases in taxation during the war were in the sphere of direct taxes. What revolutionary change in the distribution of taxation the war has brought about will be clear from the following:

(In crores of rupees)

	Total Tax Revenues A	Total Taxes on Income B	Percentage of B to A
1938-39	73·8	17·3	23
1939-40	81·9	19·4	24
1940-41	79·7	25·9	33
1941-42	103·3	44·1	43
1942-43	134·5	85·8	64
1943-44	199·2	138·0	69
1944-45 (Budget)	261·1	182·6	70

This direct taxation which was only 23 per cent of the otal revenue now bears a proportion of seventy per cent and t may be expected that this feature will be retained in the post-war tax structure. Increases in the rates of income-tax and corporation taxes and in surcharges on income and super-taxes, steeper progression, the imposition, and later heavy increases in the rates, of Excess Profits duty—these were responsible for the substantial contribution of direct taxes to the total revenue. Among indirect taxes, increases in excise duties on sugar, gasoline, kerosene, matches, tyres and tubes, silver, tobacco, cigars and cigarettes, tea and coffee, were the main source. The table following gives the main elements in the tax system:

(In crores of rupees)

	1938-39	1942-43	1943-44	1944-45 (Budget)
Customs	40·5	25·1	25·9	28·0
Central Excise	8·6	12·7	25·7	40·9
Corporation (Tax and Excess Profits tax)	—	31·4	63·7	81·6
Taxes on Income	15·2	54·4	74·3	100·9
Profits of the Reserve Bank	·2	3·2	7·5	7·5
Railway's Contributions	·2	4·5	32·3	31·4
Posts and Telegraphs	·2	4·5	9·4	11·3

The total tax proceeds from 1939-40 to the end of March 1944 have been reckoned at Rs. 534 crores of which direct taxes account for Rs. 232 crores and indirect taxes at 302. These figures have significantly changed in the 1944-45 budget year. The Railways have proved a great profit—yielding asset and between 1939-40 contributed nearly Rs. 84 crores to the central revenues,

Loans

The borrowing programme of the government for defence expenditure was put into effect from June 1940 and as the following table will show was not much of a success till the middle of 1943.

	(Rs. crores)
June to 31st March 1941	53
1941-42	58
1942-43	43
1943-44	111

Besides the defence loans, there were also the sales of the rupee counterparts of the sterling loans which were repatriated under different schemes (see below). In all the total loans of all categories including Post Office cash certificates and Defence Savings and National Savings Certificates amounted to Rs. 592·45 crores up to 31 March 1944, of which the net investments in rupee counterparts were 209·29 crores. Of the total of Rs. 592·45 crores, 341·49 crores were subscribed for only in 1943-44; that is to say in the preceding three years only Rs. 251 crores were absorbed, i.e., less than 53 per cent in three years as against 57 per cent in a single year.

Treasury bills and Ways and Means Advances from the Reserve Bank were the main kinds of short-term borrowings. The outstanding Treasury Bills, which had reached the high level of Rs. 282·29 crores on 19 March 1943, showed a steady reduction and on 31 March 1944 declined to Rs. 128·20 crores. The average rate on Treasury Bills ranged from 1·23 per cent to 0·47 per cent.

Sterling Balances—Repatriation—Public Debt

In view of the controversy regarding sterling balances accumulated to the credit of India it is necessary to have a clear knowledge of the ways in which these credits have accrued to India. Immediately after the war broke out, all dollar balances held in the United States by residents in India as also the holdings of such residents in American securities were compulsorily acquired, rupee equivalents for the

amounts thus acquired being paid out by the Reserve Bank. The exact amount is not known. Secondly, there were normal export merchandise surpluses on private account during the five years ending with March 1944. These have amounted to Rs. 290 to 300 crores. Thirdly, there was the export of goods on government account which is not brought into the published figures of foreign trade ; and finally, there were the sale of silver to Britain and the share of Britain's liability for India's war expenditure.

The total sterling holdings of the Reserve Bank at the end of March 1944 stood at Rs. 945 crores as against Rs. 64 crores at the end of August 1939. But, as the following statement shows, much more was acquired in the period.[11]

(In crores of rupees)

	Sept. 1939 to March 1940	1940-41	1941-42	1942-43	1943-44
(1) Sterling assets held at end of previous period	64	142	144	284	511
(2) Sterling purchased by Bank	86	76	98	122	140
(3) Sterling payments by United Kingdom	16	43	201	310	365
Total amount of sterling available for disposal	166	261	443	716	1016
Disposal					
(4) Sterling utilized for Repatriation	22	89	110	160	16
(5) Other sterling commitments	2	28	49	45	55
(6) Sterling held at the end of the period	142	144	284	511	945

11. Report on currency and finance for 1943-44.

Disposal of Sterling

Item (4) is most important and explains how a considerable part of the sterling acquired before 1943 was utilized. The process of repatriating sterling debt and replacing it by rupee debt had started before the war but the amounts involved were small. In February 1941 two compulsory schemes were brought into operation by which practically the entire sterling debt of India amounting to Rs. 469·10 crores in 1939 was wiped out, leaving only about Rs. 38 crores outstanding in March 1944. Out of a sterling debt of 365 million outstanding at the end of 1936-37, debt of the value of 307·2 had been repaid by the end of 1942-43. The Chatfield debt (debt incurred with a view to modernizing the army and its equipment) amounting to 8½ million was also liquidated. Certain railways were also purchased and railway debentures were redeemed. The redemption of sterling involves two stages: First, sterling is acquired from the Reserve Bank to pay off the holders of sterling stock, and second, rupees must be obtained to pay for the acquired sterling. Rupee counterpart loans were issued in India but these were not immediately taken up with the result that for some time the Reserve Bank was left to hold the government's *ad hoc* Treasury Bills. The composition of India's public debt has undergone a significant change, as nearly all of it is in the form of rupee debt.

(In crores of rupees)

	Rupee debt	*Sterling debt*
1939	710	469
1944	1335	38

Despite some criticism the scheme of repatriation was well received and proved a useful method of reducing the sterling accumulation in a way beneficial to Britain and India. But the problem of how to secure or employ the surplus sterling remaining after repatriation is a vexed one. On 1 September 1944 the combined total of sterling securities and sterling balances held by the Reserve Bank amounted to Rs. 1,087 crores. Until the Bretton Woods Conference the

British Government never troubled itself with the question at all. Since then British comments have been tending to be critical of the manner in which sterling credits were accumulated by India and have resorted to various arguments, designed to scale down the debt. It has been argued that the financial settlement has been unfair to Britain. Indian opinion can scarcely be expected to accept the view that Britain would be sufficiently self-sacrificing or so ignorant of the implications of a financial agreement as to negotiate one disadvantageous to herself. The fact that war expenditures mounted up to an unexpected level is no argument against the intrinsic soundness of the agreement itself, which was based on the capacity of India to bear. Again, the argument that India having already undergone the real burden of sacrifice on account of inflation need not now seek to reimburse herself from Britain has no more substance to it than the German argument would have been if occupied countries which were promised marks after the war were told that since in any case they had already suffered from inflation there was no point in seeking to get back their money. India is fully aware of the fact that Britain's expenditure was partly for India's own defence. But ignoring the politics of the matter, an agreement which was practicable only because it was based on an easy, effective but injurious method of passing on the immediate burden to India should not now be scrapped after exploiting it to one's own advantage. *The Economist* (London) and the other British papers have said that the greater the accumulation, the less the chances of India's getting it back, because it would just be impossible for Britain to repay. Has the *Economist* asked itself the question how it was possible for Britain within less than four years to draw from a poor country like India as much as Rs. 1,000 crores ? If it were argued that the Indian economy could be subject to such a strain which the British economy with its greater productiveness could not bear, India would be entitled to conclude that Great Britain was not prepared to make additional sacrifices commensurate with those imposed on India during the war. In saying this it is not to be understood that there are not other obligations which

Britain has to meet and which in view of her reduced economic capacity she may find it hard to fulfil. All that is meant is that without a much more exhaustive examination of the burden which can actually be borne by Great Britain, a mere statement that India cannot expect to be paid back in a few years is hardly helpful or valid. There are many ways open to Britain to repay her debt to India: for example, borrowing in America, disinvestment of her overseas assets, or funding the debt over a fifteen or twenty year period. In any case she should be willing to think not merely in terms of her own increasing standard of living, but also of the effects of continued Indian suffering after the war. Various other arguments have been advanced which do greater credit to the cleverness than to the intelligence or objectivity of those who advance them. It is said that the prices at which Britain bought goods in India were at inflationary levels. Apart from the moral basis of such an argument, emanating from those primarily responsible for the inflation, it is not precisely true that the prices at which goods were sold were at the prevalent inflationary levels. Internal prices were left uncontrolled; they only injured the people of India. But other prices of export goods for war purposes were controlled. Some indeed were higher than the indices of British prices. But that has no relevance in war-time, when each country has to fix prices taking into account all circumstances. The fact to remember is that the prices at which Britain got its goods from India were very much lower than those at which they were sold to consumers within the country—a greater indictment on the administration of one country by another country cannot be conceived. Those Britishers who use this argument are hoist by their own petard. Closely resembling the above in its substance and fairness is the argument that the rupee which on account of inflation in the country had only a low purchasing power in terms of sterling was kept at an artificially controlled rate and hence sterling accumulated in larger volume as otherwise would have been the case if the high rate had not been artificially maintained. This, of course, is simply absurd. If the rupee had not been controlled, it would (as it did in the last war in very similar circumstances) have

gone up in terms of sterling to 2 shillings, indeed to any giddy height. Who would want the sterling with which nothing could be purchased? Everyone would demand the rupee because the rupee meant convertibility into goods and materials which were required by Britain. These arguments have only to be stated to expose their untenableness.

A proportion of the sterling assets will, of course, continue to be the backing for the large currency in circulation. But it is not necessary to have more than Rs. 200 to 250 crores for that purpose. At the close of the war in August 1945 the debt which Britain owed to India amounted to more than Rs. 1,500 crores.

CHAPTER III

PROBLEMS OF TRANSITION

The transition from a war economy to a peace economy will be a tough job in every country but in India the difficulties will be particularly great. About 2 to 2¼ million men have been recruited into the military, naval and air forces, and the demobilization of the armed forces will be a problem of some magnitude. About 200,000 men have been added to the ranks of civilian and semi-military Administration. When the war ends, new employment will have to be found for many of them. Besides the problem of employment or re-employment, are two others not less serious. How are post-war conditions going to be? Will there be a continuing boom on account of the release of the pent-up purchasing power pressing upon limited supply of goods within and without ? Or, as is more probable, will the cessation of the enormous spending now proceeding at the rate of some Rs. 500 crores produce a slump ? Already even before the end of the war new recruitment to the Administration has ceased. The psychological effect of unemployment combined with the stoppage of spending may bring about such a collapse of prices that deflation and slump may set in. Closely connected with this is the future level of prices and costs. Are the present inflationary levels of prices and uneven costs to continue and be established at existing levels ? If so, what would be their international or competitive relations ? The larger agriculturist who has gained during the war is likely to utilize his political power to ensure that agricultural prices do not fall. Thirdly, is the problem of conversion of war industry into peace industry and the allied one of the disposal of war property.

The importance of the solution of these problems to future reconstruction need hardly be stressed.

By contrast with the position during the last war, the present-day Indian army comes from all over the country and contains very large numbers of classes not heretofore enlisted. This makes the problem of demobilization and reabsorption

a little easier. But there are other complications. Considering the size of the population, the reabsorption of almost 2 million (or rather 1½ million because 500,000 will continue in the army) is not a formidable task, but recruitment has been very uneven. Small areas have been stripped of their manpower and have contributed large numbers, whereas large areas have hardly sent out any. Again, while nearly 80 per cent of the recruits have come from the villages, the bulk of them are not agriculturists but artisans and labourers. Settlement on land does not offer any possibilities of reabsorption. Some have enjoyed an improved standard of living. They are technically trained and may be able to find employment in industry. A considerable percentage are mechanical transport drivers and cleaners.

While the government has not yet evolved any comprehensive plan for post-war employment, increasing attention is being given to the demobilized soldier. Action is likely to proceed on two or three main lines. In the first place, a Fund has been created, which now approximates to Rs. 5 crores but which will increase perhaps to Rs. 10 crores, with a view to helping the soldier to establish himself in a small business of his own. Soldiers will be given facilities to establish small workshops or handicrafts where they can use their funds and training. Secondly, the government and industry have been persuaded to give preference to the soldier in post-war employment. Labour exchanges now set up for recruitment will help place the men in new jobs after the war. Thirdly, land-settlement schemes are being worked out so as to enable a large number to settle on the land. But the difficulties here are many. Only in the Punjab are there still large areas available for settlement. One scheme suggests the purchase by the Government of India of 90,000 acres from the Punjab Government for allotment to soldiers. It is also asked that all newly reclaimed areas must be developed on the basis of joint or collective farming by groups of returned soldiers. Every province has been asked to undertake a survey of the possibilities of bringing fresh lands under the plough, but all these schemes do not add up to much.

If the settlement of the demobilized army is full of difficulties, that of the men who will be thrown out of civilian employment will be even more difficult. It is in this context that the problem of transition becomes mixed with that of reconstruction. Unless the government, industry, agriculture, etc., all join in efforts to plan economic development there is no escape from unemployment. So far the plans are in the formative stage. But the government should have a clear policy in respect of the termination of contracts of employment. Two guiding principles should govern their action. One is gradualness ; the second is the dovetailing dismissals into schemes of development which would absorb the men thrown out. In preparing plans care should be taken to provide for the training of men who will seek employment.

The prevention of a post-war slump in India will be the biggest problem for the government. It is true that opposing forces will be at work, some tending towards a boom, others towards a depression. In many countries it may be that they will cancel themselves out. In any case they are prepared to face both eventualities, and especially in view of the prospect of a pause between the collapse of Germany and the defeat of Japan they will have time to readjust their economies. In India there is reason to believe that the forces of depression and deflation will be stronger than those making for boom. The stoppage of the enormous expenditure both by the Government of India and of the allied nations will have a terrific effect on the Indian economy, unless, when the stoppage occurs, the plans for expenditure by the Government and private enterprise are well under way and can be put into operation. It is true that for India too the interval between the two events mentioned above will be of advantage. It will enable government to reduce the rate of spending gradually and also to prepare for conversion and reconstruction plans. From the world's point of view no less than from India's the intervening period between the fall of Germany and that of Japan will provide a very useful breathing space.

In the case of India there is an additional difficulty to surmount: India's price levels and her industrial and agricultural cost levels are entirely out of step with those of other

countries. At present, on account of controls over all spheres of economic activity, the disparities do not matter. But when controls are relaxed—as they must be—the continuance of a high-price cost structure in India out of accord with world levels would mean the collapse of her export trade, and probably unemployment. The following table sets out the disparity between conditions in India and elsewhere, and despite the admittedly defective statistical data will give a broad picture of the situation.

Cost of living and Wholesale prices for the latest available month.[12]

Base 1935=100

Countries	*Cost of living* 1944	*Wholesale Prices* 1944
India	238	304
Canada	119	141
U.S.A.	126	136
Australia	122	137
U.K.	130	170
South Africa	127	156

How should adjustment be brought about ? One method that has been suggested is to devaluate the rate of exchange sufficiently so as to equalize money costs within and without. But to accept the present inflationary levels of prices in India as inevitable and desirable would be to continue the injury to several classes of the population. There is no question of going back to the pre-1939 price levels, but no one can seriously argue that we should accept a situation where the index of wholesale prices is 300 and cost of living is 250.

The answer to the question, what should be our price policy after the war?, depends partly upon how far it is practicable to reduce costs in industry and agriculture. No great reduction in money wages will be practicable, although allowances and bonuses will suffer a decline. The method of securing a reduction in wage costs is not by reducing wages but by raising the per capita output of the worker. This

12. See *Eastern Economist,* September 1944.

means a larger amount of capital equipment per worker, and, in the agricultural sphere, better seeds, manures etc., the provision of better livestock implements and machinery as well. The State will have to take a large part in enabling industry and agriculture to re-equip themselves for this task. A second method is to enable industry to modernize its plant and machinery, throwing all the old plant into the scrap heap and writing down its capital costs by heavy depreciation and obsolescence allowances, etc. In this context the fiscal policy of the government is most important. After taking all possible steps to reduce costs, prices should be stabilized at the level consistent with the new levels of costs, and the exchange rate should be fixed so as to bring about an equilibrium of current trade balances. In any event there can be no going back to 1939 price levels. The duty of the government is to ensure an orderly decline in prices up to the level considered reasonable by taking all monetary and control measures (including export and import trade controls) and then stabilize prices by fixing a suitable exchange rate.

The third problem of reconversion is not very difficult in India. Some of the war industries will perhaps be scrapped. But those that can be converted into peace-time uses must be retained and handed over to private business or operated by government. Policy must govern the choice. But the principles of disposal of Government-owned plant and machinery and of surplus stocks are clear. Disposals should be through normal trade channels, should be spread out over a considerable period prices, should not be such as will have a bearish effect on general prices and the widest opportunity should be given for smaller and medium-sized businesses to buy. These principles have been generally accepted.

But there remains another question. What about the industries which were set up during the war, taking advantage of the opportunities which the war provided? It is clear that unless some assurance of help including protection is given, many of them will collapse, as they did at the end of the last war. Not all deserve to continue or have survival value. But some do have. So far the Government has not enunciated its post-war industrial policy. The only statement of policy in

this respect is contained in the limited assurance given by the Commerce Member in 1940 that in the case of industries definitely set up on account of the war and at the instance of the government they would be given protection. This is certainly too rigid and narrow a view. The case for liberalizing the terms of assurance is indeed very strong. So far only the following industries started at the instance of the government have received such assurances: Aluminium, calcium chloride, bichromates, steel pipes and sheets, calcium carbide, and starch. What is needed is the setting up immediately of a Tariff Advisory Board which will review the case of all industries which have grown up during the war and decide which of them deserve to be encouraged and fostered. Without such early action, the prospects of a number of war industries in the post-war period are bleak indeed.

It is not necessary to deal with other aspects of conversion—the financial facilities that may be needed, the fiscal changes which may be necessary, etc. Enough has been said to indicate the enormous importance of the manner in which the transition to peace economy is effected.

Chapter IV

POST-WAR ECONOMIC RECONSTRUCTION

A. The Bombay Plan

The plan of Economic Development of India which later came to be widely known as the Bombay Plan was published in Janary 1944 by eight prominent industrialists and it met with a welcome and reception of quite an unusual kind. The Bombay Plan is, in reality, not a plan or blue-print giving details of the methods to be adopted in achieving the ends which it sets out. Its merit lies in the formulation of a clear and well-defined goal of national economic activity to be realized in fifteen years after a period of preparation. The scarcity and distress prevalent all over the country since 1942, of which the Bengal famine was the tragic symbol, combined with the disillusionment and frustration in the political and economic sphere were responsible for the emotional enthusiasm with which the public greeted this new plan. That it was drawn up not by theorists but by practical businessmen lent support to the view that it should not be beyond the realm of practical action and fulfilment.

Briefly, the objective set out was doubling of the per capita income to be achieved through the raising of the output from agriculture by 130 per cent, from industry by 500 per cent and from services by 200 per cent. Since the population was increasing at the rate of 5 million per annum, the doubling of the per capita income would not be possible unless the total national income was trebled. Basing themselves on an estimate of the essential minimum of subsistence, the authors of the plan reckoned that to ensure that minimum in respect of food, clothing, housing, education, sanitation and public health and medical facilities a minimum annual income of Rs. 74 was necessary for each individual as against the present income of Rs. 65 (all figures based on 1933-39 prices). But in any plan some margin should be provided for recreation, comfort, etc. Hence the goal was to raise the income from Rs. 65 to Rs. 130 in about fifteen years. The contribution to

output made by agriculture, industry and services respectively is at present 53 per cent, 17 per cent and 22 per cent. But the essential agricultural character of the economy was still to be retained, although industry would have increased its output by 500 per cent. The plan then deals with certain broad lines of development in respect of agriculture, transport, industry, education, housing and public health. Emphasizing the importance of developing basic industries, the plan says: 'We consider it essential for the success of our economic plan that the basic industries on which ultimately the whole economic development of the country depends should be developed as rapidly as possible'. Power development is placed first in the list of basic industries, followed by mining and metallurgy, engineering, chemicals, armaments, transport, cement, etc. The agricultural programme is sought to be realized by bringing fresh areas under cultivation, better methods of cultivation, co-operative farming, consolidation, removal of indebtedness, irrigation and prevention of soil erosion, and by the establishment of model farms. As regards transport, the plan contemplates the increase of the existing railway mileage from 41,000 to 162,000 miles; road transport is to be increased from 300,000 to 600,000 miles, and the present earthen roads of 226,000 miles are also to be metalled. Coastal shipping is to be increased and ports and harbours are to be strengthened and built. The treatment of education is all-embracing in scope, covering primary education, secondary and vocational education, Adult education, University education and scientific education and research. Illiteracy is to be liquidated in 15 years and technical and scientific education to be provided sufficiently rapidly to secure the personnel to run the planned economy. In the sphere of public health, not only are urban areas to be provided with water supply, but also villages. Each village is to have a dispensary well-staffed; and general hospitals, special hospitals and sanatoria should be available to the entire population. Perhaps the most ambitious part of the plan lies in the scheme of urban and rural housing. The idea is to provide everyone with a minimum of 100 square feet, and this, translated into terms of cost, would mean a capital expenditure of Rs. 1,400 crores. The

total capital requirements of the plan have been laid down as follows:

	(Rs. crores)
Industry	4480
Agriculture	1240
Communications	940
Education	490
Health	450
Housing	2200
Others	200
Total	10,000 crores

The plan next examines the financial resources available and takes the view that the capital necessary to put through the scheme can be secured in various ways. In its proposals to raise this capital, the plan has come in for a great deal of criticism from different quarters and it may be, therefore, useful to indicate its main financial features.

A distinction is rightly drawn between internal and external resources required to put the scheme through, and the amount required from external sources is Rs. 2,600 crores out of Rs. 10,000 crores. Out of the country's hoarded wealth in gold, the planners believe that 'if suitable means are adjusted for attracting hoards from their place of concealment and if a national government comes into power in whom people will have faith' this can easily be secured. Secondly, as a result of India's new creditor position the balance of trade will improve so far as to enable her to use at least Rs. 40 crores annually for getting extra capital goods from abroad. This they reckon at Rs. 600 crores in 15 years. In putting forward the above two methods in the manner they have done, they have subjected themselves to some criticism. In the first place, gold within the country should not, it is argued, have been classified under external finance. It is as much the internal capital of the country as the annual savings. This is only a formal criticism because the substance of the argument lies in the fact that the gold is convertible into foreign exchange for the import of machinery and plant from abroad. The second criticism is better laid. The balance of trade is

as much the income and saving of the community as any other income or saving. Hence it is argued that to isolate it as if it is something different is not valid.

The other important source of external capital is the sterling credits accumulated by India, and from this source, Rs. 1,000 crores is expected to be realized for the plan. Finally, since the above may not suffice, provision is made for a foreign loan of about Rs. 700 crores.

So far as internal capital is concerned, the plan proceeds on the assumption that if the present rate of savings is maintained, i.e., 6 per cent of the annual income, it would give Rs. 4,000 crores over the entire period of 15 years. But that will not suffice. While a larger percentage of the national income than has been estimated may be forthcoming, if it does not materialize, a large part of the capital, almost Rs. 3,400 crores, would have to be created by borrowing against *ad hoc* securities from the Reserve Bank. New money to this extent, they admit, can be created only if people have full confidence in the resources and *bona fides* of the government that creates it. But they argue that there is nothing unsound in it and in the long run is of a self-liquidating character. During a transition period there will be a gap of course between the volume of purchasing power in the hands of the people and the volume of goods available. To prevent inflation, every aspect of economic life will have to be so vigorously controlled by government so that individual liberty and freedom of enterprise will suffer a temporary eclipse.

It is on the question of 'created money' that much public criticism has been directed. That there are dangers of creating money may readily be granted. The planners went wrong in treating the subject from the old traditional point of view in terms of created money, rather than in terms of planned savings. This defect has since been remedied by Mr. G. D. Birla, one of the signatories, who in a very clear and able explanation of the plan has pointed out that whether you call it savings, or balance of trade, or created money, what is required is savings to the extent of 16 per cent of the national income in the period. This, he believes, is practicable and can be raised without injury to consumption to any serious

extent. He argues that in real terms this means the extra labour of 4½ per cent of the population for the new job of creating savings. Consumption will not only not fall during the period but actually will be higher. Thus not only is no sacrifice proposed, but on the contrary what is proposed is a rising standard, and more investment as a foundation for more work and still higher standards. Mr. G. D. Birla concludes: 'From whichever angle we may look at the problem, it comes to this: that in the shape of human labour we must be prepared to earmark 4½ per cent extra of our total population. In the shape of money we should be prepared to earmark 10 per cent of our income in consumption goods and 75 per cent of our income in capital goods or an average of 16 per cent on our total income. I think for a gigantic plan like this, the assumption is not, in any way, frightening'.

Sir Jeremy Raisman in his budget speech in February 1944 referred to the dangers of created money in the face of an already existing inflationary situation and of the desire of the public to get some relaxation of control after the war. Would the public, he asked, agree to such rigorous control as is necessary to reduce the inequality and injustice of an inflationary method of raising capital? It is not necessary to argue this at any greater length here. We shall take it up at a later stage in its appropriate context.

The plan, of course, frankly recognizes the need for raising the output of consumers' goods at an early period and cites the Russian example as a warning against excessive emphasis on heavy industries and indifference to consumption goods industries. Hence in the sketch of development which has been drawn, consumption goods industry gets a high priority in the first five-year period, while basic industry starts at a moderate pace but advances speedily in the second and third five-year periods.

This then is the substance of the Bombay Plan. It rests on one or two basic assumptions and does not itself deal with details. The latter is left to the National Planning Committee, while the actual execution is to be the function of a supreme economic council working along the national planning committee under the authority of the central government. The

assumptions are (1) the coming into existence of a National Government at the Centre which will be vested with full freedom in economic matters, and (2) the maintenance of the economic unity of India. The plan left for future consideration questions of the distribution of income among the various sections of the community and the relation between government and private enterprise; the second part of the plan dealing with these has now been published.

The Bombay Plan has exerted an influence perhaps out of proportion to its undoubted merits. It has made the entire nation planning-conscious. It has driven the government which had so far merely nibbled at the problem of post-war reconstruction into more vigorous planning and preparation. Whatever be the political conditions of the country after the war, economic development of one kind or another will be pursued by whatever government is in power. But whether reconstruction will be on a vast scale or only piecemeal will depend upon the future constitutional set-up. War conditions have in every sphere of life brought home the necessity for central planning and co-ordination. No province in India can ever hope to have an independent economic prosperity. Each province has to depend upon other provinces for its essential requirements—may be in food, or raw materials or minerals or may be in manufactured articles. Hence while political factors have been tending towards fragmentation and partition, economic factors have been compelling in their effects and tend towards integration. Which of the two on balance will exert a greater influence one cannot tell. The answer is going to be of deep significance to India and the outside world.

There is no sanction behind the Bombay Plan, which in any event must be put into operation by the government. The present government with all its inhibitions and lack of freedom is pursuing its plans of reconstruction in a more pedestrian manner but with genuine interest. Within the framework of the existing constitution by which education public health, industry, agriculture, forests, fisheries, transport and a number of other subjects fall within the purview of provincial governments, it would be very difficult to frame any policy on a national scale which could be put through

8

on an all-India basis. But the Government of India is proceeding on the assumption that by co-ordinating all provincial plans under central direction, by itself proceeding with such plans as are within its own constitutional powers, by affording financial and other aids and above all by taking certain further powers if necessary, it could embark upon a healthy significant programme of development. Unlike the Bombay Plan which has a vision and goal of trebling the national income within 15 years, the government plan has no overall end or objective. It splits its task and breaks it down to a number of sectional goals. But provided these goals are reached, there is no reason to think that the result would very materially differ from the end willed under the Bombay Plan. It is therefore necessary to review briefly the schemes which the government has in view and which add up also to a big plan of reconstruction.

B. Government Schemes

Agricultural Development Scheme

A Rs. 1,000 crores plan for the development of agriculture and animal husbandry with the immediate object of increasing production by 50 per cent in the next 10 years and ultimately by 100 per cent in 15 years is suggested by a special committee of the Imperial Council of Agricultural Research. This plan was later endorsed by the Policy Committee on Agriculture, set up by the Government of India, and may be taken as the official plan in regard to agriculture. The plan aims at securing enough food of the right kind for every individual. Production of cereals is to be increased by 10 per cent, pulses by 20 per cent, fats and oils by 250 per cent, fruits by 50 per cent, vegetables by 100 per cent and milk, fish and eggs, by 300 per cent. The immediate targets for animal foodstuffs are an increase in the production of oil-cakes and other concentrates by 400 per cent and fodder 55 per cent. The establishment of a Federal Department of Agricology with an adequate scientific and technical stuff is recommended. Besides the securing of adequate nutrition to the country's growing population, the production of adequate raw material for its growing industries as well as for export is also planned.

Among the measures proposed to implement the plan are crop planning, reform of land tenures, provision of financial facilities, and stabilization of agricultural prices. Some kind of compulsion is also envisaged to force the cultivators to conform to the regulations and use of uniformed seeds, manures and methods. The plan rightly lays stress on the need for a large trained personnel. Besides agricultural improvement, provision is also made for measures against soil erosion, for irrigation, and for land reclamation. The order of priority envisaged is as follows :

Irrigation; manures; land improvement; tillage; seed; livestock improvement.

Forestry

A post-war plan for forestry to increase the area under forest to about 20 to 25 per cent of land in each province and state has been adopted as the goal. The war has caused a great felling of trees and timber and denudation of forests. It is felt that unless at least 20 per cent is reserved for forests, and necessary timber and fuel are provided for the agriculturist, the farm yard manure which is now burnt as fuel cannot be released for its more valuable use. The cow dung thus saved would perhaps manure about 15 per cent of the cultivation. The creation of at least another 100,000 square miles of forest in British India alone is contemplated.

Fisheries

A five-year plan for fisheries has been drawn up which provides for a comprehensive survey for the development of fisheries and the promotion of research, and the development of ways and means for the manufacture and storage of fish and fish products. It provides for the establishing of a Fishery Research Institute to act as the administrative and research headquarters for fishery research.

Transport and Communications

A plan framed in 1943 by the Chief Engineers' Conference for the extension of road construction is the basis on which the government is expected to build its road programme. It suggests a twenty-year programme for the building of 400,000

miles of roads at a total cost of Rs. 450 crores. The programme is divided into two parts: a long-term programme to give elaborate road communications and a short term programme to deal with the immediate problems arising out of the war. Roads are to be classified as National highways, Provincial roads, District roads and Village roads. National highways are to be planned by the Centre which will also co-ordinate all other road-transport affairs through a new Road Transport Board. It is suggested that road-making machinery and plant as well as materials (e.g., cement) for road construction should be manufactured in India. Motor transport will also be developed with the object of getting it into the heart of the village and countryside.

Railways

While road transport is amply provided for, the plan for railway building is extremely poor and provides only for a yearly construction of 500 miles for the next 10 years, as against the building of 41,000 miles in 15 years under the Bombay Plan. It is possible that the programme will be revised. An expenditure of Rs. 319 crores is provided for which includes provision for rehabilitation and improvement. Workshops for the manufacture of locomotives, boilers and railway equipment are also to be established.

Shipping

It is recognized that for a country of such size and length of coastline, India possesses a distressingly small number of deep-sea ships. At the outbreak of the war there were only 30 with a total of less than 150,000 tons. The government is now pledged to a policy of assisting the development of an Indian mercantile marine. The acquisition of an adequate share in the world's carrying trade, an increased share of the coastal trade, a substantial share in the near and Eastern trade and a fair share in the trade between India and the United Kingdom, Europe and North America are all stated to be the objectives of post-war shipping policy. The construction of more harbours is also planned and improvements in the ports are designed.

Aviation

A plan has been prepared which will link all the principal commercial and industrial centres of the country and connect them with the principal neighbouring countries. The services planned involve a route mileage of 10,500 and the total transport expected would amount to 12½ million ton-miles a year. The internal air services are the sole concern of India and will be reserved for herself. A large and up-to-date ground organization is to be built up. The capital cost of the fleet required to run the essential services is estimated to be Rs. 150 lakhs. The annual cost of operation will be Rs. 2·53 crores during the first year falling to Rs. 1·90 crores in the fifth year. Subsidies may have to be given in the early stages, and the services may be operated either by the State, or by a statutory corporation or by a limited number of licensed companies.

Electric Power

The government has decided to set up a central Technical Power Board to initiate, co-ordinate and put forward schemes for electrical development throughout the country and to engage in education and propaganda to encourage the use of electricity. It has also accepted the policy of furthering the industrial use of electricity, e.g., by the manufacture of fertilizers. The output and consumption of coal and electricity in India are so low that the development of electricity is placed in the forefront of the government's policy. India's output of coal per head is ·07 as against 5 in the United Kingdom; ·62 in Japan; 2 in Australia. In China only is the per capita output lower. In electricity used, India is the very last among the nations of the world. 5 K.W. is the amount consumed per head of the population as against 900 for United States; 602 for the United Kingdom; 560 for Australia; 368 for Japan and 9 for China.

Education

A comprehensive plan of education has been drawn up, which the Central Board of Education has approved, whereby all children will have a certain basic education and those who

show promise will pass on to High Schools, Universities and other institutions for further education. It also meets the requirements of the country for technical education, side by side with practical training. The scheme is spread over 40 years. During the first five-year period the bulk of the expenditure will be on organization personnel, experiment and research and in establishing colleges and schools, for training teachers of different types. Thereafter the incidence of expenditure will depend largely on the expansion of the high school system. It is estimated that the increased cost of education will be Rs. 10 crores in the first 5 years, Rs. 23 crores in the tenth year, and Rs. 61 in the twentieth year. The peak of expenditure will be reached in about the fortieth year when the cost will be about Rs. 312 crores gross or Rs. 277 crores net per annum.

At first this scheme failed to receive the degree of priority intended by its sponsors. The Viceroy Lord Wavell in his address before the Associated Chambers of Calcutta in December 1943 joining issue with those who desired to place education first expressed himself as follows: 'It is clear from the practical point of view that the full realization of a scheme such as that contained in the Sargent Report must wait on other developments. India at present simply has not the money for such a scheme. As the country acquires increasing riches by industrial and agricultural progress, so it can afford to spend larger sums on education and health....from the practical point of view I think the main social services must be developed in the following order : Communications, health and education'. Since the above, the Government of India has changed its mind and shows willingness to assign a higher order of priority to education.

The overriding necessity of the post-war situation in India will require larger personnel to man the technical and scientific services required for her industry, agriculture, etc. An immediate contribution in this respect may be expected from the skilled men now in the Defence Forces engaged in war production. But a much larger personnel is required. Hence it is proposed to set up a National Council for Technical

Education at once so that plans for developing higher technical education may be immediately framed.

Public Health and Medical Services

The importance of raising the general standard of health has now been recognized, but no plan is yet ready. In October 1943 the government appointed a Health Survey and Development Committee to make a survey of the present position in regard to health conditions and make recommendations. As soon as the report is ready, the plan may be expected to be drawn up.

Scientific and Industrial Research

It has been recognized that the development of India's resources will depend largely upon her ability to adopt and apply the results of scientific and technological research in all fields of activity. The Council of Scientific and Industrial Research established in 1940 has done much useful work. It is proposed to set up with grants from government and aids from industry the following national laboratories: (1) a national physical laboratory, (2) a national chemical laboratory, (3) a national metallurgical laboratory, (4) a fuel research and (5) a glass research institute. The first three institutions can be established only after the war but work will commence immediately on the last two. The Council of Scientific and Industrial Research represents only one section of research activity. There are a number of other research organizations and there are proposals to bring them all under a properly co-ordinated organization. Certain leading scientists have been granted facilities to survey research conditions in Britain and America and on their return the whole scheme of scientific research will receive further attention.

Housing

In respect of housing, the government has practically no plan and this is in striking contrast to the Bombay Plan where housing occupied a very prominent place. Except for vague aspirations of improved housing, control of building, and establishment of factories, the question has not reached the stage of proposals or decisions.

Industry

Again in respect of industry—apart from power—the government's plans have been nebulous. In August 1944 the Viceroy created almost a sensation by inviting one of the signatories to the Bombay Plan, Sir Ardeshir Dalal, to join his government as Member in Charge of Planning and Development. By that act he proved his intention to give a fillip to industrial planning. How far the new member will have freedom to plan and execute remains to be seen. In the meanwhile he has set up an Advisory Council representing all sections of industry to advise him in his plans and also technical committees for different industries composed of persons with knowledge and experience of the industries already in the country or which can be set up. The department has also an industrial adviser attached to it. The priority to be assigned to different industries, the agencies to undertake the establishment of industries, the problem of location, transport, raw materials and power, import requirements are all expected to be examined thoroughly, and on the data available some kind of industrial planning may be expected to evolve.

Finance

The amount of revenue and capital that may be available for development is also under examination by the government. It is but natural that a government accustomed to extremely conservative methods of raising revenue and incurring expenditure should be less optimistic than the Bombay planners. Plans are being drawn up on the assumption that capital expenditure on electrical development, roads and irrigation would be financed out of loans and in the case of industrial development out of private capital except where participation by government is decided upon. Recurrent expenditure by government on these services and expenditure on social services (e.g. education, public health) are to be financed out of revenue or out of assured recurring grants from the Centre.

Provided the development of industry and agriculture and increase in taxation are on a comparable scale, the govern-

ment feels that 'there is no reason why the provision of comprehensive education and health services over the whole of India should not become possible within a period of forty years'. This, of course, is too conservative a view. It is based on the Finance Member's calculation that in the first five years after the war only about Rs. 1,000 crores of revenue would be available for expenditure on all plans by the Central and Provincial Governments.

As regards capital resources the government has no plan yet. But the Finance Member has argued in an ingenious way that sterling credits accumulated by India were the necessary backing for the expanded currency in the country, and belonged to the Reserve Bank. But this view was regarded as absurd and in the face of strong public criticism the Finance Member resigned. So large an amount as Rs. 1,300 crores must not be treated as mere currency reserves to be depleted by the Reserve Bank by deflation. Something like Rs. 250 crores might be held by way of reserves. The rest must be available for conversion into dollar or other foreign exchanges and for the purpose of goods from Britain or other sterling areas. India will not accept any arrangement by which her accumulated sterling is either scaled down or not unblocked immediately after the war.

Chapter V

PROBLEMS OF RECONSTRUCTION

The programme of economic development of India outlined in the preceding chapter and more particularly the rapid industrialization contemplated under the Bombay Plan will, if put through, raise problems of great magnitude both within the country and outside. The impact both internally and externally will depend very much on the speed with which the transformation of the economy is sought to be effected. But the questions that first arise are : Are these schemes—the unofficial and the official—too ambitious ? Are they practicable in the sense that within the time allowed they could really be put through ? Will capital, and, what is even more necessary, the technical skill and knowledge, be available within that time ? Does the country have conditions of sufficient political stability to ensure the fulfilment of such an ambitious plan ? These are not easy questions to answer ; but some answer must be attempted before we can deal with their international aspects.

On the political future of India it is hard to prophesy : but one may not be accused of undue optimism if he assumes that on the economic front some unity of purpose may be expected to be achieved, whether a National Government is established or not. Even the present government is committed to a rapid economic development of the country. There is in reality no substantial difference between the objectives of the Bombay Plan and the government's own piecemeal schemes. Both aim, for example, at doubling agricultural output, doubling transport facilities, liquidating illiteracy, providing sanitary and medical facilities and increasing industrial output. Hence we may at once proceed to discuss the real difficulties and obstacles which planning will encounter.

The most serious handicap is in the scarcity of administrative, technical and scientific personnel required for planning on such a vast scale. Price control was a failure in India because the government had no machinery to enforce it. As the

Finance Member pointed out: 'The administration of India had been on a pitifully inadequate scale for centuries and if they were to improve the level of the country in all the beneficient departments, if they were to bring it up to anything like the standard of a modern, civilized country, they would have very greatly to increase the resources at the disposal of government no matter whether it was the government of a National Government' and added: 'I should have had a price control staff fifty times the present staff, a staff of efficiency and integrity'. If in respect of controls we needed fifty times the staff in various fields, we need many times more for planned development. In Russia, 9·5 million persons were employed to administer the economy of the country during the planning period. This works out at about 5·5 per cent of the total Russian population. We may not need so many, but still the number required is beyond the existing capacity. In the sphere of agriculture, industry, education, services, transport research, etc., at least a few millions would be required.

It may be that within a short time, training facilities may so far be extended that the requisite number may be obtained. This is rather doubtful. Schemes are under way for sending men out for training abroad. But in a country where the general level of education is yet very low, it may not be easy to get an adequate supply of trained men at short notice.

The second equally serious problem is whether agriculture could be modernized and reformed so as to ensure a quick increase in production. The Bombay Plan did not touch the question of land tenures. Again, would the country agree to collectivization of agriculture if that is found to be the most promising line of reform ? There are experts who believe that collectivization is neither practicable nor indeed necessary, but that every reform may be achieved within the framework of peasant proprietorship. Others want at least large co-operative farming or joint farm management. Can these reforms be brought about in an old country without a large element of compulsion ? If compulsion is necessary, what kind of government can enforce it ?

Thirdly, there is the question of capital. India is banking upon the availability of sterling credits. But recent discussions of the subject in Britain are not a little disturbing. Suppose for one reason or another these credits are not available within the next ten or fifteen years, which is the most critical period for India's reconstruction. What then? Recourse may be had to loans from the United States. But the amount may not be on a scale needed for India's full development. Further American loans will depend upon a variety of unforeseeable factors that it is unsafe to rely upon.

India has herself a large volume of internal savings which can be put into use. But unfortunately at the present inflationary levels her capacity to produce anything at a profit is extremely doubtful. Industrial costs in respect of every range of products are bound to be higher than world costs. Unless effective measures are taken to increase productive capacity, by promoting research, by increasing capital equipment per worker and by improving skill, thereby reducing costs, very little scope exists for real expansion.

One need not be unduly alarmed at the so-called created money recommended in the Bombay Plan. Provided savings are planned and output is also planned, the economy can be kept in equilibrium. What is necessary is to increase consumption goods to the level at which, given price controls and some degree of rationing, the people may not be badly off. But would the community accept so much control? Would the business community which has endorsed the Bombay Plan agree to the retention of controls of a fairly rigid kind, even if administered by a National or popular Government?

There is finally the question of State control of industry. It is possible that a large part of planned development may be carried under a system in which government controls operate only at certain critical points, e.g., savings, taxation, export and import, and in which once the targets are set up, private enterprise will be left to achieve the goal. But suppose there is either a failure or deficiency in certain spheres of activity? The State will have to enter and fill the gap. That will lead to all sorts of other complications. Further, would the provision of various social services be practicable

before the country has made some advance in industrial, agricultural and other kinds of economic development ?

These doubts are raised not with a view to proving that the plans framed in India are impracticable. On the contrary, the country is determined to go forward with them. The point is that, despite every hope and intention, progress may be held up at various points and the timing will perhaps undergo many changes.

As regards the international aspect again, it is a question of the speed with which the transformation is effected. If India is able to revolutionize her agricultural and industrial economy in a decade, the effects on the world economy would be serious. In other words a great deal of adjustment will be needed by the rest of the world. But if as is more probable the changes occur in a period of 25 years, time will be available for such adjustment.

In any case the economic development of India will have nothing but a favourable effect on the rest of the world. For one thing, India does not propose to adopt the goal of self-sufficiency or autarchy in any sense of the term—not even in regard to her agricultural requirements. Considering her special geographical and strategical position in South-East Asia, she will no doubt have to be more self-reliant than in the past in respect of agricultural requirements especially of food supply and of industrial war products. But while a certain degree of agricultural and industrial self-sufficiency will be necessitated on account of her special situation and needs, she will not have self-sufficiency as a national goal. Self-sufficiency only where she must have, and foreign trade wherever possible. The immediate effects of her economic reconstruction will be a great impetus for the demand of the goods of the countries, especially of capital goods and for some years also of consumers' goods. After she attains a high degree of industrialization, the nature of her trade with other countries will alter. But as experience has shown, trade radiates more and more from industrial to industrial countries. So industrialized India will cause a greater demand for other countries' goods and supply a larger volume of her

own goods. The benefits to the rest of the world will be lasting and substantial.

Her temporary creditor position should enable her immediately to use her resources for the maintenance of employment in other countries. For a year or so after the war America may be fully engaged in meeting her own backlog demand but after that time, India's demand will be a factor strengthening America's economy and enabling her to maintain fuller employment. The fear that with American machinery India would build up industries which will ultimately destroy America's own markets or competitive power is too remote to call for an answer. While the character of trade between the two countries may alter, there is every reason to expect that mutual trade would increase with India's growing industrialization.

India's economic development depends for its success not only on her own internal educational and training facilities but upon the facilities provided abroad and particularly in America for industrial and technical training of the Indians. A fruitful era of co-operation is possible, if America recognizes her own opportunities and responsibilities and is willing to work out a training scheme for the purpose. The world as a whole stands to gain by a prosperous India. But whether the world likes it or not, India has made up her mind that she should put an end to poverty and ignorance. Given world co-operation and goodwill, her task would be easier; otherwise she will have to undergo a more painful process of temporary privation. Her resources are vast. There are yet undiscovered and unexplored minerals and resources which an expanded geological survey will soon lay bare. She has a vast market. Her labour supply is great and, if unskilled, can easily be trained. War-time America has shown to the world that within the very short period of a few weeks men could be trained to look after fairly complicated machines. The Indian workman is highly intelligent and has initiative. Capital is available. India has built up credits abroad. Her industrial leaders are alive to their responsibility and eager to utilize the post-war opportunities. The country is burning with the desire to improve living standards. Even the Govern-

ment of India, subordinate as it is to Britain, is willing to act. The future therefore holds bright prospects for her, and India perhaps will soon be the most significant force in Asia and perhaps in the world.

Printed by G. S. Press, Madras
P.I.C. MS. 97 for Indian Council of World Affairs, Delhi, 1—1—1946